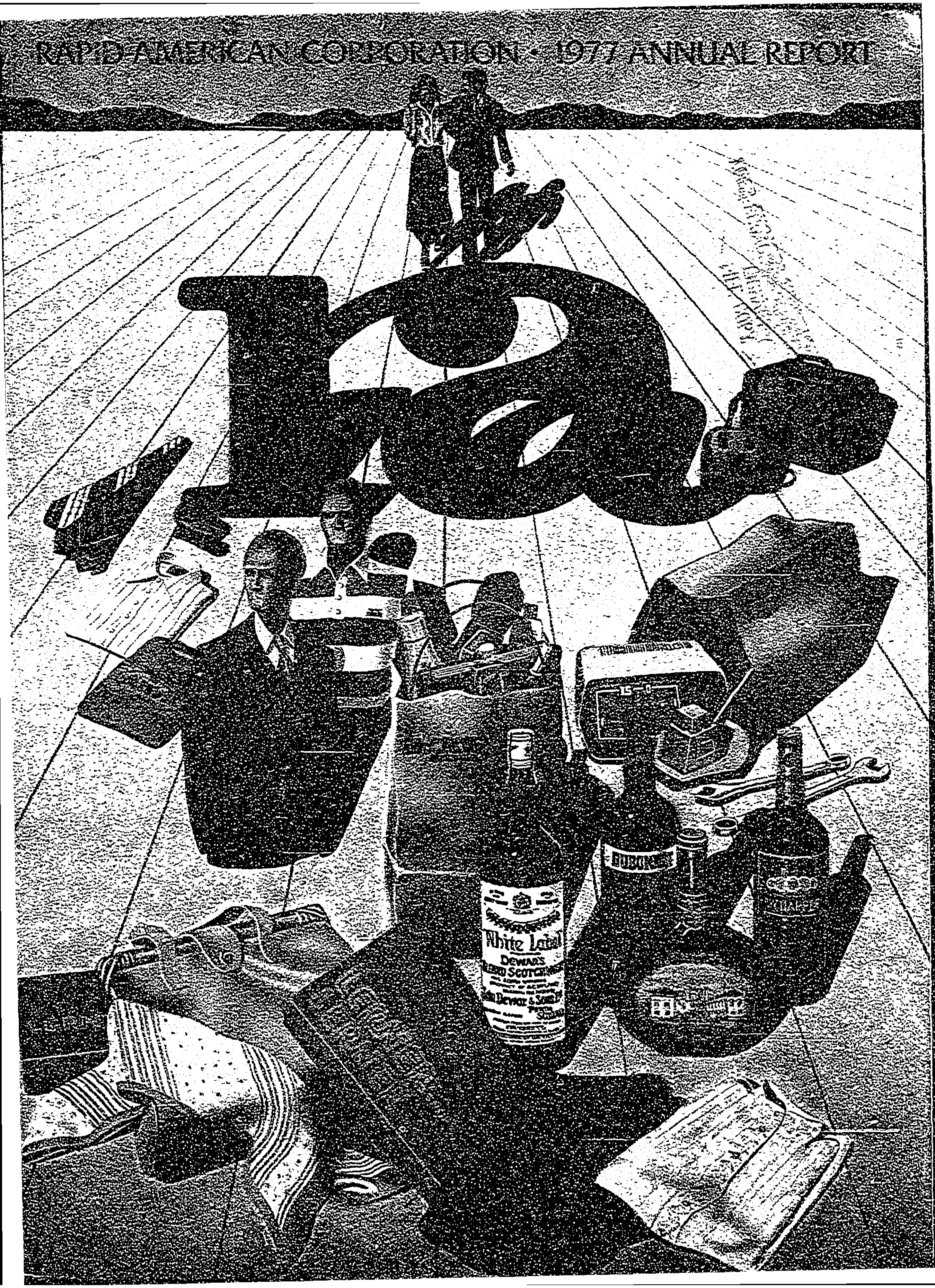
RAPID-AMERICAN CORPORATION • 1977 ANNUAL REPORT
White Label
DEWAR'S

CORPORATE OFFICERS

MESHULAM RIKLIS
Chairman of the Board, President and Chief Executive Officer

ISIDORE A. BECKER
Vice Chairman of the Board

LEONARD C. LANE
Chairman of the Executive Committee and Executive Vice President

HAROLD S. DIVINE
Vice Chairman of the Board

LORENCE A. SILVERBERG
Executive Vice President

ARIE GENGER
Vice President and Executive Assistant to the Chairman of the Board

BERNARD J. BLANEY
Vice President and Treasurer

MICHAEL J. MAGENHEIM
Controller

STUART H. AARONS
Secretary

BOARD OF DIRECTORS

MONA R. ACKERMAN
Editor, Dell Publishing Company

ISIDORE A. BECKER*
Vice Chairman of the Board of Rapid-American Corporation and of McCrory Corporation; Chairman of the Board and Chief Executive Officer of Schenley Industries, Inc

HAROLD S. DIVINE
Vice Chairman of the Board of Rapid-American Corporation

BERNARD KOBROVSKY**
Private Investor

FRED KORROS
Account Executive, Bache Halsey Stuart & Shields Incorporated (stock brokers)

LEONARD C. LANE**
Chairman of the Executive Committee and Executive Vice President of Rapid-American Corporation

SAMUEL J. LEVY*
Chairman of the Board of Southern Packaging & Design Corp. (woven labels)

MESHULAM RIKLIS*
Chairman of the Board, President and Chief Executive Officer of Rapid-American Corporation and Vice Chairman of the Board of McCrory Corporation

PINHAS RIKLIS**
Private Investor

LORENCE A. SILVERBERG*
Executive Vice President of Rapid-American Corporation; President and Chief Executive Officer of McCrory Corporation and Chairman of McCrory Stores.

*Member of the Executive Committee
**Member of the Audit Committee

CORPORATE INFORMATION

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New York, N.Y. 10004

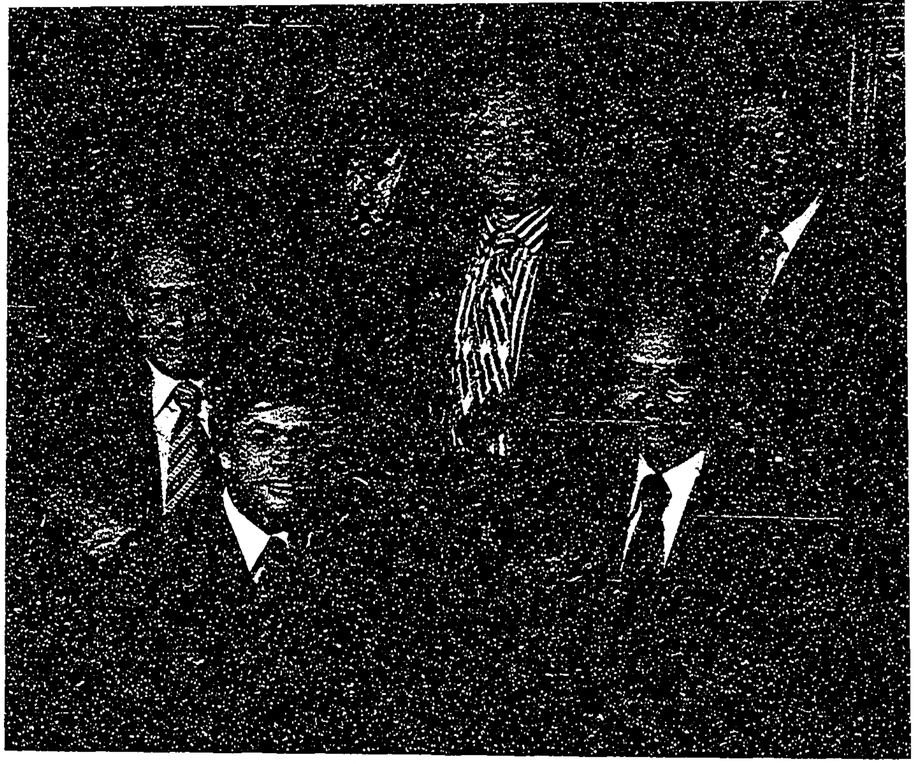
CO-COUNSEL
Rubin Baum Levin
Constant & Friedman
645 Fifth Avenue
New York, N.Y. 10022

Fried, Frank, Harris,
Shriver & Jacobson
120 Broadway
New York, N.Y. 10005

TAX CONSULTANT
Arnold Broser, Esq.
888 Seventh Avenue
New York, N.Y. 10019

EXECUTIVE OFFICES 888 Seventh Avenue, New York, N.Y. 10019 Phone: (212)399-4500

TO OUR STOCKHOLDERS



(Left to Right, standing) Leonard C. Lane, Meshulam Riklis, Lorence A. Silverberg. (seated) Isidore A. Becker, Arie Genger, Harold S. Divine.

I am gratified to report that fiscal 1977 was a very good year for Rapid-American Corporation. For the second year in succession, the Corporation substantially exceeded budgetary expectations with sales of $2,373,000,000 and income from continuing operations of $25,118,000, compared with sales of $2,346,000,000 and income from continuing operations of $13,940,000 in the prior year.

Earnings from continuing operations were $2.95 per share of common stock (excluding discontinued and extraordinary items) compared with $1.54 in fiscal 1976.

Almost every division has met or surpassed last year's results and its fiscal 1977 budget. In retail operations, Lerner Stores continued its remarkable history of profitable performance, and recorded the largest sales and earnings in its 60 years of operation. McCrory Stores, too, achieved record earnings. OTASCO Stores experienced the greatest sales and earnings in its 59th year.

Schenley, operating in an industry marked by the changing tastes of consumers, posted strong earnings though down from the prior year. *Cocktails for Two*, Schenley's new entry into the line of ready-made cocktails has surpassed expectations, while most of Schenley's other brands either held their own or moved forward.

Our industrial group also exceeded expectations. Rapid-American Menswear (particularly its Botany '500' division) substantially surpassed the sales and earnings of last year, as did Wonderknit and Botany Shirt, both of which attained record sales and earnings. Gilead, too, turned in a strong performance, while Beau Brummel held its own and Leeds Travelwear continued its program of cost and inventory control.

I am also pleased to report that under the recently concluded agreement with our bank lenders, our bank debt has been restructured, providing for a more manageable debt repayment schedule. A significant portion of our public subordinated indebtedness has also been favorably restructured in two recent exchange offers. In one, approximately $153,000,000 principal amount of new 10¾% Sinking Fund Subordinated Debentures due 2003 were exchanged for $204,000,000 principal amount or 2/3rds of the issue outstanding of 6% Sinking Fund Subordinated Debentures due 1988. In the second, we are offering to exchange $825 principal amount of a new 12% Sinking Fund Subordinated Debenture due 1999 for each $1,000 principal amount of 7½% Sinking Fund Subordinated Debentures due 1985. These exchange offers have enabled us to extend maturities of our subordinated indebtedness, obtain reductions in principal amount outstanding and increase stockholders' equity.

Significantly, too, McCrory Corporation at January 31, 1978 had no bank borrowings, contrasted with approximately $40,000,000 of such borrowings at last year-end. It is also worthy to note that on December 1, 1977 we increased our ownership of the total voting power of McCrory Corporation to slightly more than 80%; accordingly, McCrory's domestic taxable income from such date is includible in the Rapid-American consolidated Federal income tax return.

On March 29, 1978, the Board of Directors declared a dividend of 20¢ per share on common stock (the first dividend declared since the dividend of 12½¢ per share paid on April 30, 1975). This dividend is payable June 30, 1978 to holders of record on June 15. The agreement with the banks and the earnings of fiscal 1977 provide for the ability to pay an additional 20¢ per share on common stock before the end of the year; however, the Board will review the advisability of the additional dividend later this year.

The foregoing encouraging picture of our accomplishments to date is the product of careful, thoughtful and innovative planning and its implementation by very hard work paced by a united and determined effort of our management employees at every level. I cannot adequately praise the cooperation, dedication, loyalty and competency of our management team, the heads of our divisions, their staffs, and the tens of thousands of our employees on all levels engaged in manufacturing and distributing our products and operating our thousands of retail establishments. We have likewise strengthened our management team by the election of Harold S. Divine as a Vice-Chairman of our Board, the promotion of Lorence A. Silverberg to President and Chief Executive Officer of McCrory Corporation, and of Karl L. Margolis as President and Chief Executive Officer of Lerner Stores. We tried in this Annual Report for 1977 to present as many of our management team and staff as space would permit.

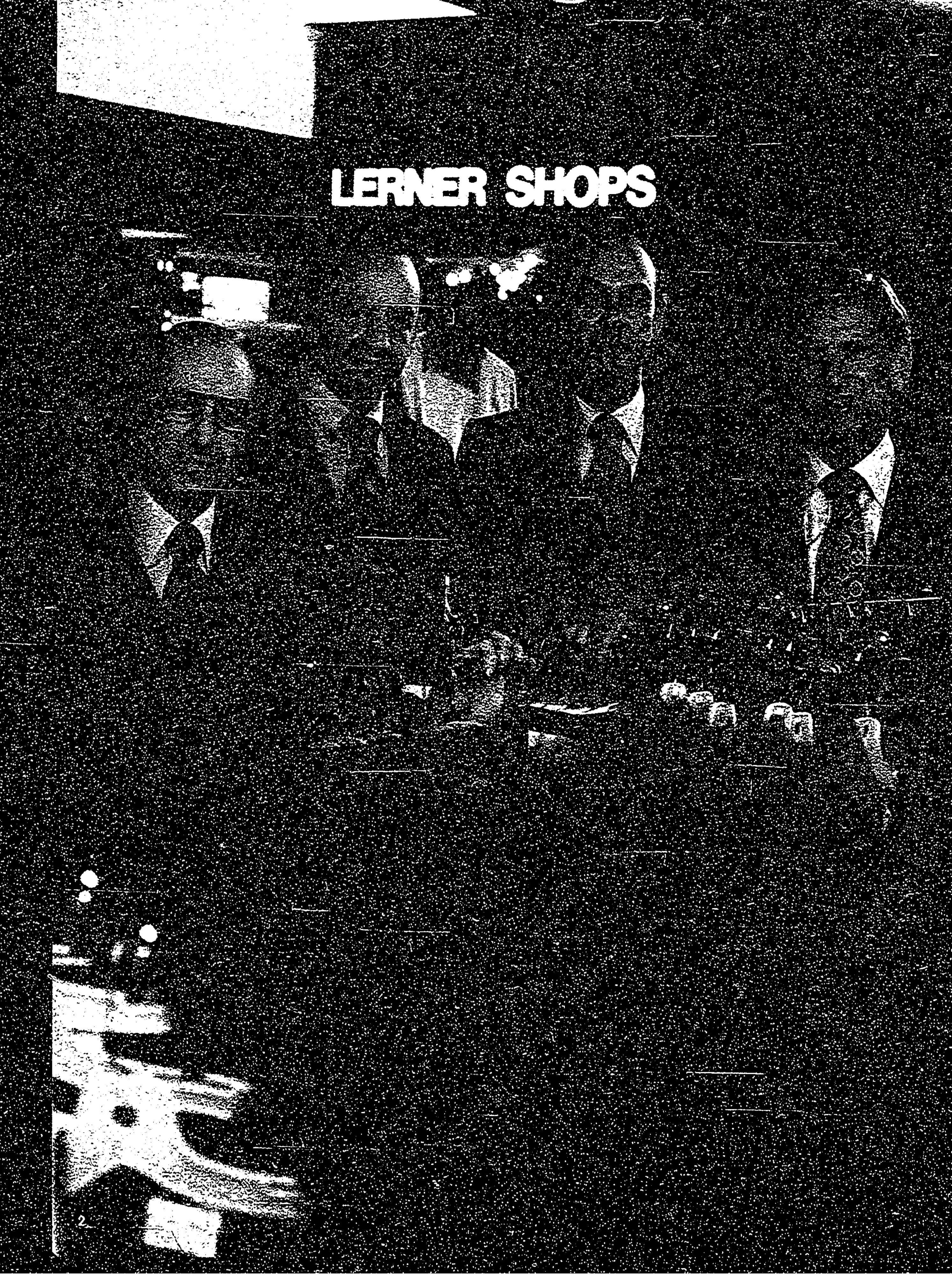
We are now in a new year, determined that the momentum generated by the last two years will continue unabated. We have emerged stronger than we have ever been. Our personnel are experienced and dedicated. We have an excellent mix and balance in our enterprises. *With all that working for us, we are confident that we shall further increase our profitability in fiscal 1978.*

Sincerely,

M. Riklis

Chairman of the Board and President

April 14, 1978


LERNER SHOPS

LERNER STORES

The year 1977 set a milestone for Lerner Stores with the greatest sales and profits in its history. This record breaking performance was also accompanied by an unprecedented expansion and modernization program.

A record number of 38 new stores was opened during 1977 with present plans calling for a significantly larger number of new store openings in 1978. These new stores are smaller in size than our traditional stores and are designed to maximize selling space. Only the most productive merchandise categories are carried in these stores; less productive categories have been eliminated. Results to date have been most satisfying, with sales per square foot in the new stores up sharply.

To insure that all its stores reflect today's "in" look, the company modernized 61 units during 1977. This remodeling program will continue at an accelerated pace in 1978.

At the end of fiscal 1977, after closing 16 stores, there were 498 Lerner Stores in operation, of which 352 were located in suburban shopping centers.

Lerner Stores, in addition to its corporate headquarters and distribution center in New York City, operates branch offices and distribution centers in Atlanta, Jacksonville, Los Angeles, Denver, Pittsburgh, Chicago and Dallas. This extensive regional network enables Lerner to give close merchandising and operational supervision to its stores throughout the country and provides the necessary field organization for its aggressive expansion program.

Harold M. Lane, Sr.
Chairman Emeritus

Karl L. Margolis
President and Chief Executive Officer

D. John Palladino
Vice Chairman and Chief Financial Officer

Marc J. Reiss
Executive Vice President, Merchandising

Arthur E. Strickman
Executive Vice President, Operations

(Left to Right): D. John Palladino, Karl L. Margolis, Marc J. Reiss, Arthur E. Strickman

McCRORY STORES

McCrory Stores, currently operating stores under the trade names of McCrory, McLellan, H. L. Green and J. J. Newberry, concluded a banner year in 1977, registering a significant increase in operating earnings over 1976.

This substantial increase in profitability is attributable in great part to increased sales, a judicious pruning of uneconomical stores, and a selective program of new store openings combined with the remodelling, modernizing, refurbishing and remerchandising of existing stores.

During 1977, 45 stores were closed as part of a program of closing stores with a low ratio of sales to inventory and unsatisfactory inventory turnover.

In 1977, 11 new stores were opened and 17 stores were totally remodelled. At the same time, continuing McCrory's program of increasing store profitability through improved product presentation and development, 64 stores were modernized, refurbished, and remerchandised. These programs will continue in 1978 with an even larger number of stores planned for such remodelling and modernization.

In a determined effort to develop new concepts in variety stores merchandise presentation and operation, McCrory opened a 12,300 square feet prototype store. This store is designed to increase merchandise sales per square foot by using previously unused cube space for merchandise presentation and to increase food sales per square foot by adopting fast food service under the name of *Captain Mac's*. The prototype has exceeded projected sales both in merchandise and food service and it is being closely monitored for future development.

The management of McCrory Stores congratulates the personnel in the stores, the home office and distribution center for a job well done. Their continuing dedication and expertise will enable McCrory Stores to attain even greater heights in 1978.

Lorence A. Silverberg
Chairman and Chief Executive Officer

Ben Litwak
President and Chief Operating Officer

Charles Gass
Executive Vice President

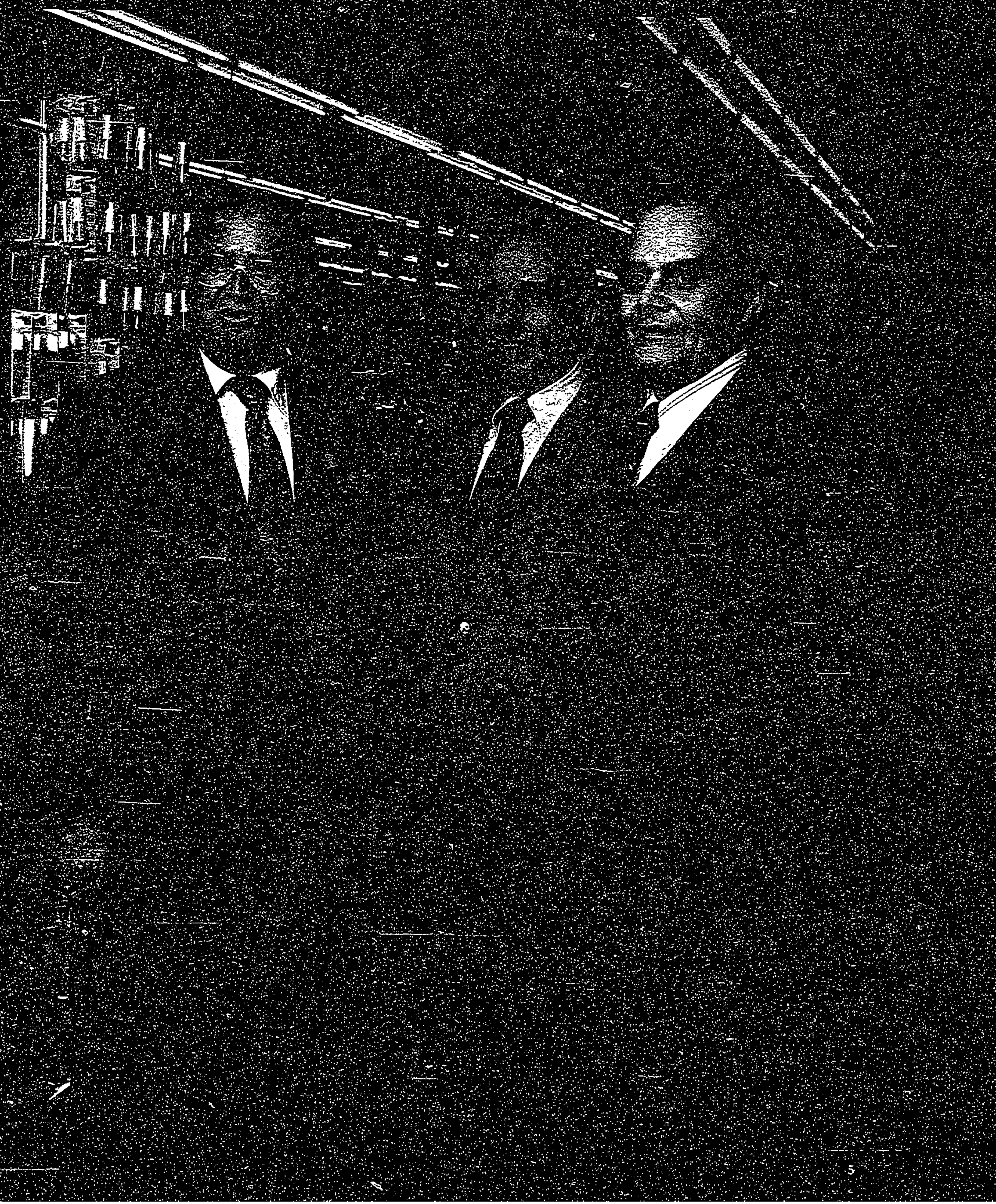
Senior Vice Presidents
J. Philip Lux
General Merchandise Director
William R. Tallman
Operations and Field Merchandise Director

Vice Presidents
Anthony L. Clifford
Store Operations
Roger A. Elliott
Personnel
Harold R. Hughes
Administration
Irwin J. Hyman
Director of Real Estate
Paul McClellan
Movement of Goods
Bernard W. Morse
Analytics
Willard L. Morton
National Sales Manager
Donald Noll
Food Service
Kenneth Phillips
Informatics
George B. Stephens Jr.
Controller
Lazarus S. Yudin
Investment Control

William E. Davis
Assistant Vice President Financial Planning

Assistant to President/Director of New York Buying Office
Loren C. Shockley

(Left to Right): Ben Litwak, J. Philip Lux, William R. Tallman.



OTASCO

In 1977, OTASCO continued its progress with record sales and earnings, an increased number of stores, improved marketing programs and upgraded nationally advertised product lines.

Eight new company-owned stores and 17 new associate-dealer stores were opened, increasing the total number of outlets to 654.

The "Friendly Folks at OTASCO" slogan, continues to characterize and dominate the personal service concept of OTASCO Stores and its employees, and has become the hallmark of OTASCO operations in the eyes of the consumer.

OTASCO Stores are commonly referred to as Home and Auto Stores, averaging approximately 10,000 square feet in size, each having auto service bays. Stores are located in a 13-state area in the South and Southeast, from Oklahoma, Texas and Kansas on the west to Georgia and South Carolina on the east.

The merchandise sold includes auto parts and accessories, lawn and garden supplies, hardware, housewares, major appliances, sporting goods and leisure-time merchandise. A fast growing segment of operations includes automotive service and parts installation.

OTASCO and its employees eagerly look forward to 1978, which marks OTASCO's 60th anniversary. An exciting Diamond Jubilee celebration is being planned for the entire year, featuring sales promotions, public relations and an aggressive expansion program for both company-owned and associate-dealer stores.

Edgar R. Sanditen
Chairman of the Board

Abe Brand
Vice Chairman of the Board

Ely G. Sanditen
Chairman of the Executive Committee

A. Arnold McNatt
President

Jerry L. Goodman
Vice President and General Counsel

Vice Presidents
Paul Marks
Real Estate
Donald Mann
Store Operations
Robert E. Shireman
Wholesale Division
J. R. Behl
Distribution

Helen Mason
Secretary
Calvin Gilbert
Treasurer

(Left to Right):
Jerry L. Goodman.
A. Arnold McNatt.
Abe Brand.
Ely G. Sanditen.
Edgar R. Sanditen.

(Left to Right):
Stephen Jackel.
George W. Baylis.
Thomas Britt.

BRITTS

Britts currently operates 25 department stores in 12 states. With the planned opening during November 1978 of a 100,000 square feet Britts store in West Palm Beach, Florida, Britts will then be operating 5 stores in Southern Florida, 8 stores in the midwest, and the remaining 13 stores principally in the eastern states. Britts sells moderately-priced merchandise of established brands in family apparel and accessories with full assortments of quality domestics, housewares, small appliances, giftware, china, glass, sporting goods and garden supplies. In addition, privately labelled quality merchandise and branded specials support continuously strong promotional efforts in keeping with the quality image.

Intensive efforts to improve sales and operating results were undertaken by management in 1977. Independent buying and sales promotion at the store level were phased out in favor of centralized buying and advertising. Coincident with the change to centralized management controls, experienced merchandise managers, buyers and a sales promotion staff from the department store field were employed.

George W. Baylis
President

Steve Jackel
Executive Vice President

L. W. W. Horton
General Manager Britts Florida Division

(Left to Right): David A. Chernow, Irving Hornstein, Adolph Slone, Isidore A. Becker, Joseph A. Morelli, Howard S. Feldman.

SCHENLEY INDUSTRIES

The major product event in the wine and spirits industry in 1977 was the very successful debut of *Cocktails for Two*, Schenley's entry into the big and growing pre-mixed cocktail market.

Twelve different cocktails, in glass bottles with wrap-around foamed plastic labels, were introduced in the Spring. The American consumer accorded *Cocktails for Two* one of the warmest receptions in industry history—instantly, nationwide and in-depth. Three more flavors were introduced toward the end of 1977, and four more are scheduled for early 1978.

Among Bourbons, the company's leading seller, *Ancient Age*, surged ahead substantially, and both *I. W. Harper* and *Old Charter* maintained their market shares. This, in a Bourbon market that was off an estimated 4% in 1977.

For the twelfth straight year since its introduction, *George Dickel* Tennessee Whisky showed an increase—a phenomenal 20%. Indeed, the company could have sold even more *George Dickel* if it could have produced more of this carefully-aged whisky.

The sales volumes of *Schenley* vodkas, cordials and specialties were strengthened—the vodka by a significant 6%. Prestigious *Dubonnet* continued its steady and gratifying growth.

In the import field, *Dewar's "White Label,"* the company's single best-selling brand, increased its market share and solidified its position as the number two selling Scotch. Moreover, the brand's success was nationwide, with advances registered in 48 of the country's 55 markets.

The great Italian name of *Stock* once again made advances in its product categories, especially Vermouth and Cordials, where *Stock's* more recently introduced flavor, *Amaretto*, received swift consumer acceptance. *Stock Brandy* continues to be the number one selling brandy in the world.

Schenley also continued to assert its dominant position in the imported wine sector. *Mateus* remained its biggest-selling brand, but sales were up in all sectors. Particularly strong growth was shown in the Spanish and Italian categories, with *Fratelli Lambrusco* leading the way.

Further progress was made integrating into the Schenley marketing system a number of recently acquired brands such as *Pedro Domecq* Brandies and Sherries, *Wyborowa* Polish Vodka, *Power's* Irish Whiskey and various Italian wine labels. And with the growth in the rum market, renewed effort was put behind *Cruzan* Virgin Islands Rum.

During the year Schenley sold four of its company-owned wholesale distributorships. This was a contributing factor in the sales decrease from the prior year. However, sales growth appreciated on many important brands and in a widening number of new marketing areas.

Isidore A. Becker—*Chairman of the Board and Chief Executive Officer*
Howard S. Feldman—*President and Chief Operating Officer*
David A. Chernow—*Senior Executive Vice President*
Irving Hornstein—*Executive Vice President and Treasurer*
Adolph Slone—*Executive Vice President*
Joseph A. Morelli—*Vice President*

The major brand names of Schenley

STRAIGHT BOURBONS:
Ancient Age, Ancient Ancient Age, J W. Dant, I. W. Harper, Old Charter
AMERICAN WHISKEY.
Schenley Reserve
SCOTCH WHISKIES:
Ancestor, J. W. Dant, Peter Dawson, Dewar's "White Label"
IRISH WHISKEY:
Power's Gold Label
CANADIAN WHISKIES
J W Dant, Grande Canadian, MacNaughton, O F C.
TENNESSEE WHISKEY:
George Dickel
BRANDIES·
Coronet VSQ, Asbach (Germany), *Cambas* (Greece), *Pedro Domecq* (Spain, Mexico), *Grand Trianon* (France), *Stock '84* (Italy)
GINS:
Schenley Extra Dry, Plymouth (England)
VODKAS:
Samovar, Schenley, Wyborowa (Poland)
RUMS·
Carioca (Puerto Rico), *Cruzan* (Virgin Islands)
TEQUILA:
Ole' (Mexico), *San Matias* (Mexico)
PREPARED COCKTAILS:
Cocktails for Two

LIQUEURS AND CORDIALS:
J W Dant, DuBouchett, Schenley, Cambas (Greece), *Cuarenta y Tres* (Spain), *Glayva* (Scotland), *Stock* (Italy), *Strega* (Italy)
APERITIFS AND VERMOUTHS:
Dubonnet Red and Blonde, *Lillet* (France), *Stock* Dry and Sweet Vermouth (Italy)
WINES:
France: *Canard Duchene, Krug* (Champagne), *Chateau Beychevelle, Maison Bichot, Chateau Latour, Schroeder & Schyler, LaCour Pavillon, Chateau Petrus, Pierre Jean* (Bordeaux), *F.E. Hugel et Fils* (Alsace); *Bichot, Maison Joseph Drouhin, Maison J. Faiveley, Domaine Comte Georges de Vogue* (Burgundy), *Ackerman Laurance* (Loire Valley); *Delas Freres* (Rhone)
Germany. *Guntrum*
Greece: *Cambas*
Italy: *Bigi, Calissano, Fontanafredda, Fratelli Lambrusco, Lamberti, Melini, Negri, Rivera, Santi, Vaja, Villa D'Oro, Verrazzano*
Portugal: *Mateus Rosé, Mateus* White, *Aveleda, Grão Vasco,*
Spain *Cruz Garcia Réal Sangria, Pedro Domecq* sherries, *Siglo, Domecq Domain*
Switzerland *Dezaley L'Arbalete*

BOTANY '500'

1977 was a banner year for Botany '500.' Under the leadership provided by Maurice A. Halperin, Botany '500' moved rapidly forward in expanding and improving distribution of its *Botany '500'* brand of fine men's suits and sportcoats. A broad-scale national advertising campaign (now being accelerated) helped speed penetration into the tailored clothing market and the *Botany '500'* label is currently one of the best known and most respected names in the industry.

Botany '500' continues its policy of offering exceptional values to the better specialty and department stores and serving consumers who are both fashion and price conscious. An important asset to these stores is Botany's announced pricing program which substantially assures its customers stabilized costs for American products over the next 18 months.

Maurice A. Halperin
President

Al Roth
Executive Vice President, Sales/Marketing

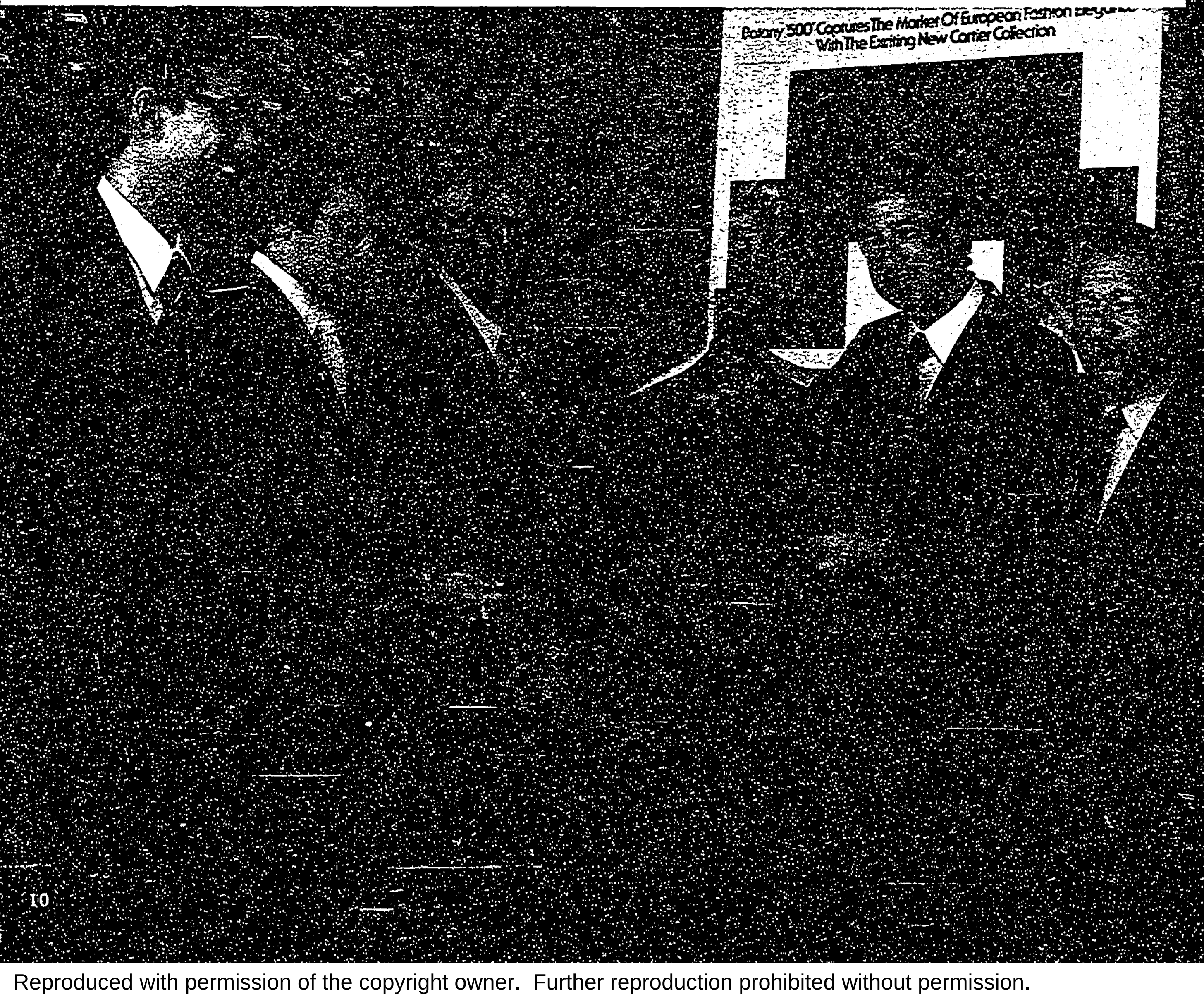
Lawrence Glazer
Executive Vice President, Manufacturing

Vice Presidents

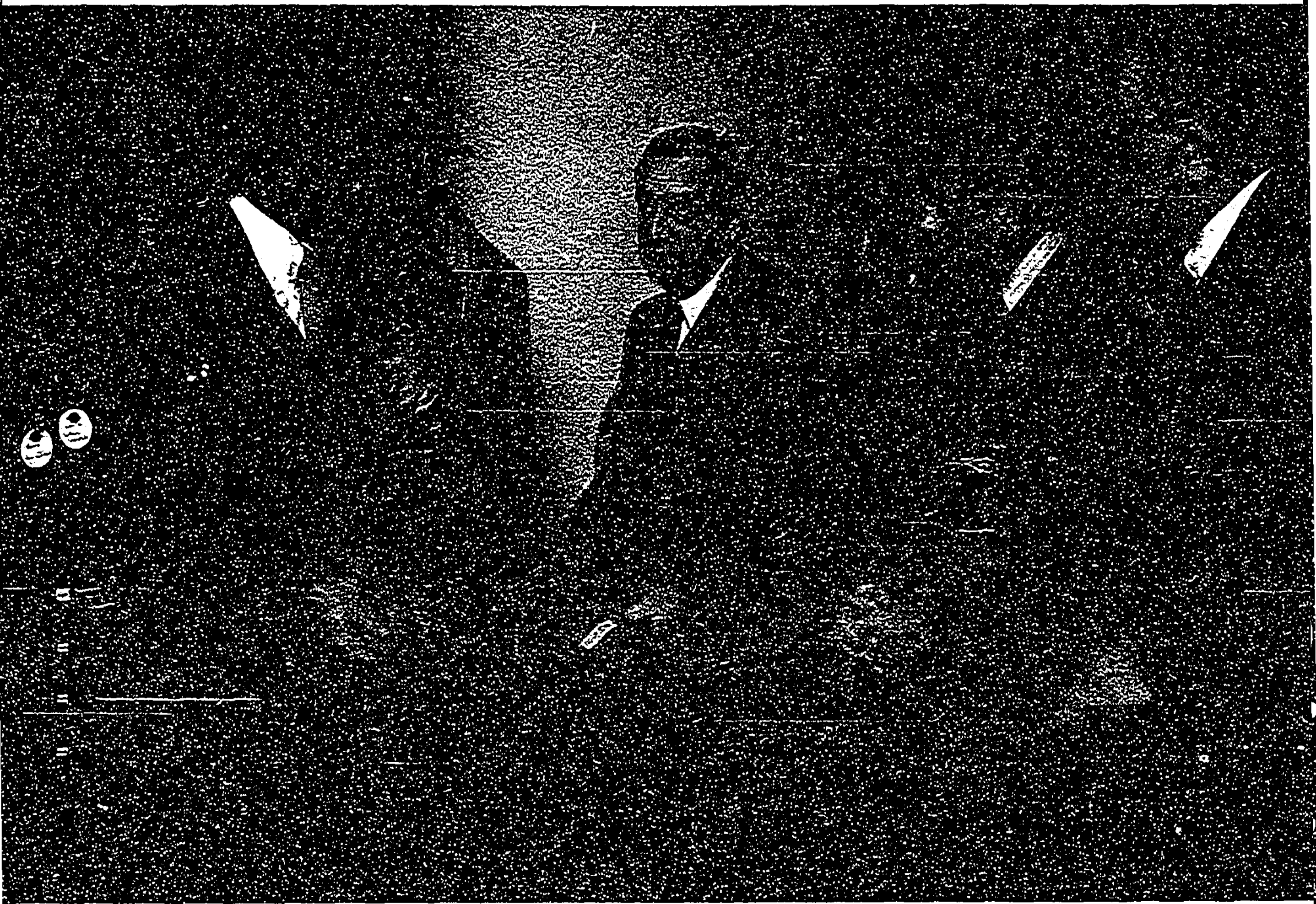
Bruce Geller
Merchandising

Daniel A. Molter
Finance

(Left to Right): Daniel A. Molter, Bruce Geller, Maurice A. Halpern, Lawrence Glazer, Al Roth.



(Left to Right): Frank'in A. Billera, Harold Haas, Frank Graham, Wassyl Liskanich.

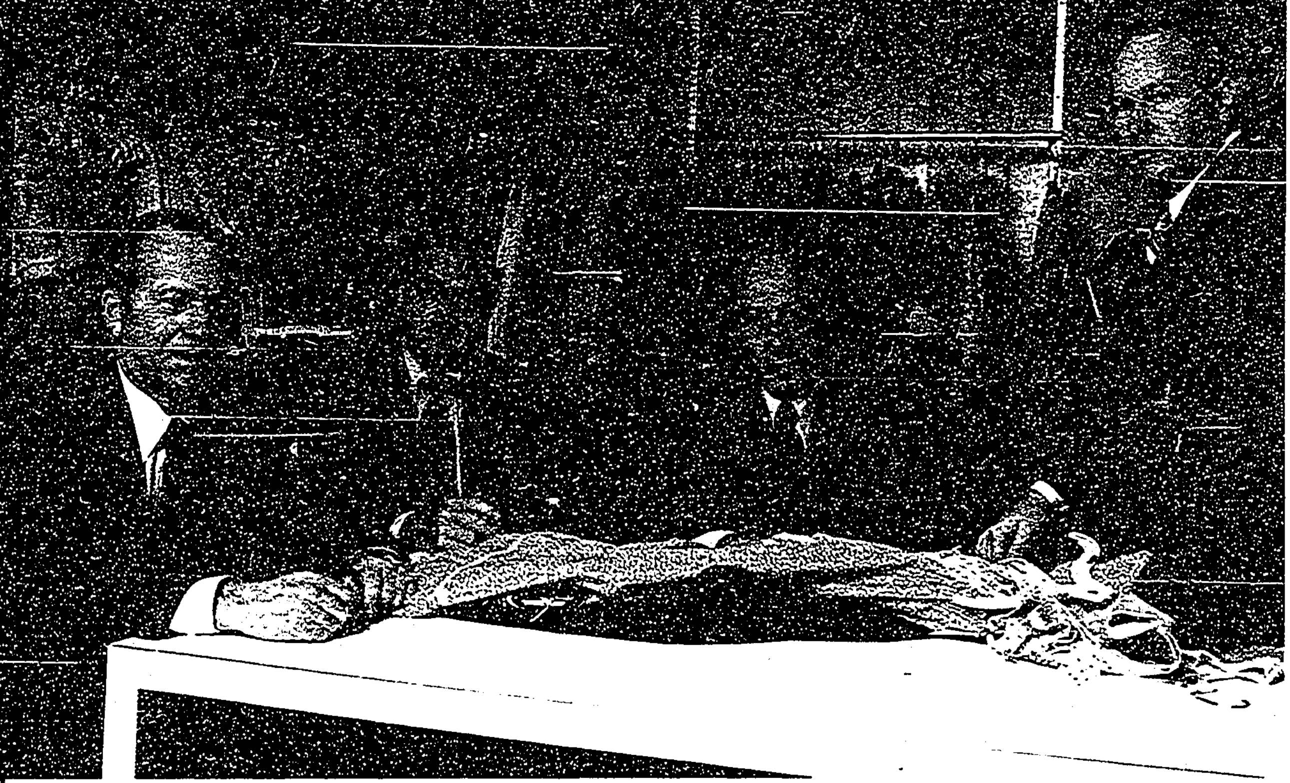


CROSS COUNTRY CLOTHES

In fiscal 1977, the Cross Country Division registered an appreciable increase in volume but a decrease in operating earnings over the prior year, which was one of the most successful years in its history. The unprecedented sales volume was substantially aided by the introduction of *Coat-Tails*, a new clothing line designed for the trim, fashion-conscious male and priced to retail at $100 to $125. This elegantly styled popular priced *Coat-Tails* line opened up new markets for Cross Country by filling a void in today's higher priced clothing market. Even large fashion-oriented stores and fine men's shops are now carrying the *Coat-Tails* line.

Franklin A. Billera
President

Vice Presidents
Harold Haas
Marketing/Sales
Frank Graham
Finance
Wassyl Liskanich
Manufacturing



(Left to Right): David I. Klein, Robert J. Levin, Aaron Jaffe, John Riley.

GILEAD

During 1977 Gilead continued its steady progress in product development and sales penetration by adding leisure wear and junior lingerie to its major product line of women's sleepwear and robes. Today Gilead has 29 representatives servicing more than 5,000 leading department and specialty stores, including the most prestigious retailers in the country.

Gilead's designers are quick to anticipate trends in intimate apparel and to provide the creativity in style and fabrics which is so strong a factor in the competitive market. This constant introduction of new styles and the expansion into additional merchandise categories, as well as the volume growth in basic sleepwear lines, have necessitated the acquisition of a fifth sewing plant. All of Gilead's plants are conveniently located within a 60-mile radius of Gilead's headquarters in Mt. Gilead, North Carolina.

David I. Klein—*President*
Aaron Jaffe—*Executive Vice President*
Robert J. Levin—*Vice President*
John Riley—*Controller*

(Left to Right): Ned H. Brower, Bernard Friedman, Robert A. Brower, Nancy B. Roehm

BOTANY SHIRT COMPANY

Botany Shirt Company, Inc., was formed in 1977 by the merger of Anvil Knitwear, Inc., and Fordham-Bardell Shirt Corporation. The merger followed the sale of a major trademark, which resulted in substantial changes in its product line and distribution. While this transition understandably depressed sales, operating profits were up slightly over the previous year, due to management's tight control over inventories and expenses.

The Knitwear Division has developed into a major producer of Knit-T's and Specialty Shirts sold to screenprinters for the retail trade and advertising promotions.

The Shirt Division has commenced manufacturing a high quality single knit dress shirt sold to "upstairs" department stores under the *Botany '500'* label. It has continued its private label programs and is now developing a position in the expanding knit sport shirt market.

In addition to its textile mill in North Carolina, Botany Shirt operates two large cut-and-sew plants in South Carolina and Tennessee.

Daniel J. Manella—*President*

Vice Presidents
Don Freeman—*Botany Shirt Division Sales/Marketing*
Ross Castagna—*Screenprint Division Sales/Marketing*
Bernard Geller—*Administration, Controller*
Houston Evans—*Manufacturing*

(Left to Right, Standing): Donald Hammes, Houston Evans, Ross Castagna (Seated), Don Freeman, Ernest Rome, Daniel J. Manella, Bernard Geller.

BEAU BRUMMELL

A tradition in tie making for over 50 years, Beau Brummell continues to set industry trends with its outstanding creativity in both fabric and design. Beau Brummell is a complete neckwear resource marketing its products under several famous labels to over 5,000 fine retail stores. Its labels include: *Beau Brummell; Mr. John* (couturier); *Saddle Club* (traditional); *Nedo di Como* (all silk neckwear handmade in Italy); and *Beau Brummell* the pre-tied Readi-Tie.

Complementing its neckwear merchandise, Beau Brummell also markets a comprehensive line of men's umbrellas under the *Beau Brella* name, a full line of men's mufflers, recently launched under the *Beau Brummell* label, and men's *Isotoner Gloves* and Knit Gloves by Aris, for both of which it has exclusive distribution rights.

Ned H. Brower—*President*

Robert A. Brower—*Executive Vice-President*

Irvin Rubin—*Vice President, Charge of New York Office*

Vice Presidents
Bernard Friedman—*Sales*
William D. Halker—*Sales*
Fred Urban—*Sales*

Nancy B. Roehm—*Controller*

WONDERKNIT

In 1977, under the experienced leadership of Reuben M. Galston, Wonderknit achieved the highest sales and earnings in its 30-year history. The *Wonderknit* label on knitted casual sport shirts and sweaters for boys has, through the years, found wide acceptance in leading department and specialty stores all over the country. The year 1977 also saw the successful introduction of an extensive line of popularly priced tennis and active sportswear for men and women under the "*Slazenger by Wonderknit*" label, a name long associated with tennis, and Wimbledon in particular.

Currently, a new label "*New Era by Wonderknit*" is being used to launch an exciting line of ladies' knitted tops. At the same time, an attractive line of men's knitted tops in casual and dress shirts for the medium to better price markets is being introduced under the name "*Laureate by Wonderknit*".

Reuben M. Galston—*President*

Vice Presidents
Charles Crames—*Sales*
Benjamin Shamper—*Merchandising*
Anthony Patti—*Manufacturing*
Jerome Linden—*Western Division*
Nathaniel Schaffer—*Womens Division*

Daniel Mancini—*Controller*

(Left to Right): Anthony Patti, Benjamin Shamper, Reuben M. Galston, Charles Crames.

LEEDS TRAVELWEAR

(Left to Right): Frank F. Hindman, Gerald A. Sylvester, William D. King, Robert H. Wood.

Significant progress has been made this past year by the Leeds Division which manufactures soft-sided luggage and golf and bowling bags under the *Leeds* trademark and for private labels. Programs were instituted effecting reductions in overhead costs and inventories, and increased manufacturing efficiency and productivity.

Leeds has long been a supplier to major department stores, national retail chains and sporting goods distributors, and in 1977 Leeds regained its former significant position in the catalog showroom industry and the military exchange systems.

To help offset losses in sales of domestically produced luggage, Leeds has initiated an import program.

William D. King—*President*
Robert H. Wood—*Vice President of Manufacturing*
Dennis M. Hayes—*National Sales Manager*
Frank F. Hindman—*Treasurer*

THE RAPID-AMERICAN/McCRORY SCHOLARSHIP PROGRAM

10 YEARS $2,500,000

A DECADE OF SERVICE

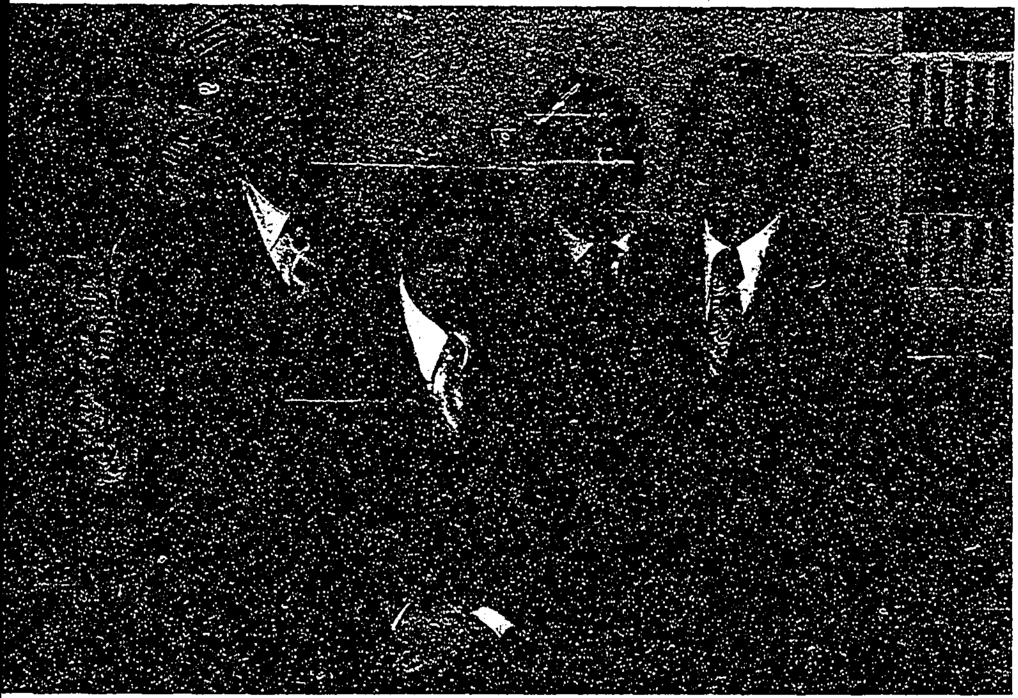
Ten years ago, Rapid-American Corporation established a Scholarship Program to help make a college education available to the sons and daughters of employees who might otherwise not be able to afford it. Students who enter the program have complete freedom of choice both as to the college they attend and the field of study they wish to pursue.

Each year approximately 100 high school graduates receive college scholarships ranging up to $1,200 annually. These scholarships are renewed automatically as long as the student maintains an acceptable academic performance. Thus the participants in the Rapid-American/McCrory Scholarship Program can look forward to completing a four-year college course supported by benefits that, in many cases, will total $4,800.

Recipients are selected by the Educational Testing Service of Princeton, N.J. Evaluation is made on the basis of rank in class, achievement and aptitude tests and on the determination of financial need.

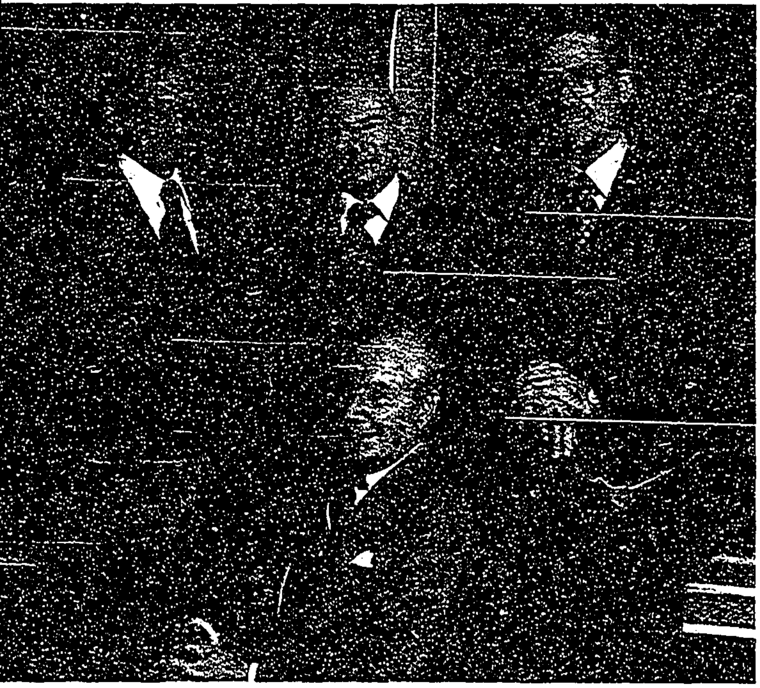
During its first decade, more that $2,500,000 has been distributed through the Scholarship Program to over 1,300 deserving students. It is the aim of the Rapid-American Corporation to expand further the program in order to make its second decade one of even greater service.

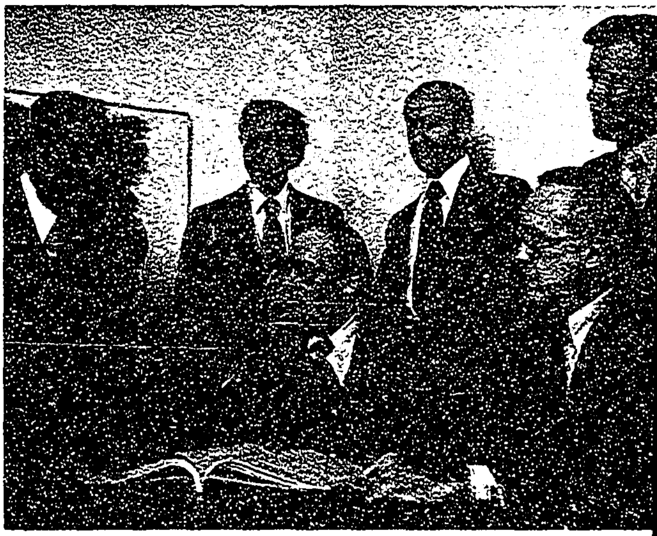
CORPORATE EXECUTIVE STAFF



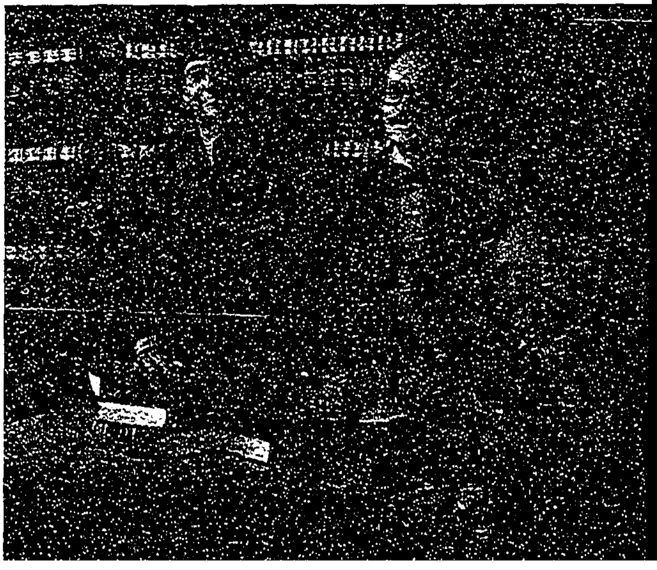
(Left to Right): Bernard J. Blaney—*Vice President and Treasurer*, Irwin Mayer—*Vice President and Treasurer of McCrory Corporation*, Paul Weiner—*Tax Director*, Michael J. Magenheim—*Controller.*

(Left to Right, Standing): Haim Bernstein—*Executive*, David I. Helman—*Director Employees Benefits*, Joseph Bernstein—*Manager, Self-Insurance*, Martin E. Sutter—*Manager, Insurance*, (Seated): Robert E. Gaskell—*Assistant Director, Employees Benefits*, Roy J. Spence—*Manager Group Life Medical Department.*





(Left to Right): Seymour Greene—*Secretary McCrory Corporation*, Stuart H. Aarons—*Secretary*, Frank J. Traynor—*Director of Transportation and Physical Distribution.* (Seated): John R. Bermingham—*President RAAM Information Services Corporation.*



(Left to Right): Irwin B. Ackerman—*Director of Corporate Real Estate*, James Pollak—*General Attorney*, Joseph Walker—*Senior Vice President McCrory Corporation.*

OPERATIONS REVIEW

Net sales of continuing operations were $2,373 million in fiscal 1977, an increase of $27 million over the prior year. Income from continuing operations for 1977 was $25,118,000 or $2.65 per share fully diluted, compared with $13,940,000 or $1.43 per share fully diluted for 1976. The contribution of each of the major business segments to consolidated net sales and operating profit (loss) from continuing operations for fiscal 1977 and the prior four fiscal years are shown below. **Operating profit for fiscal 1977 is presented in conformity with a recent accounting pronouncement and prior years have been restated on the same basis.**

CONTINUING OPERATIONS

NET SALES						OPERATING PROFIT (LOSS)				
1973	1974	1975	1976	**1977**	(In Millions)	**1977**	1976	1975	1974	1973
					Retail Merchandising					
$ 474	$ 506	$ 567	$ 582	$ **617**	Lerner Stores	$ **72.3**	$ 51.6	$ 58.1	$ 45.3	$ 47.8
520	502	509	495	**520**	McCrory Stores	**24.8**	19.0	4.4 [a]	(.6)	21.5
142	152	170	184	**197**	OTASCO	**16.8**	14.8	15.2	15.4	13.8
120	122	98	104	**91**	Britts and other	**(3.2)**	(2.8)	(3.0) [a]	1.5	4.2
					Alcoholic Beverages					
741	760	783	821	**772**	Schenley	**53.0**	56.5	51.0	59.6	62.3
					Industrial Group					
70	67	63	72	**88**	Menswear	**2.8**	1.0	(.8)	1.5	8.5
48	47	37	39	**42**	Apparel and luggage	**(.8)**	(.6)	(2.0)	(3.6)	(.6)
63	61	50	49	**46**	Knitwear	**4.8**	3.5	(7.9)	(4.6)	(2.0)
49	42	5	—	—	*Other Operations*	—	—	(1.0)	(14.0) [c]	(1.7)
$2,227	$2,259	$2,282	$2,346	**$2,373**		**170.5**	143.0	114.0	100.5	153.8
					Unallocated Costs					
					Interest and debt expense	**95.8**	95.8	119.2	143.4	105.3
					General corporate expenses	**18.6**	18.6	22.7	23.4	28.7
					Other income earned at the corporate level	**(2.1)**	(9.6)	(3.2)	(3.3)	(7.4)
					Provision for disposition of certain operations, etc.	**.9**	1.3	.9 [b]	—	—
					Minority interest and equity in income of unconsolidated subsidiaries	**.3**	(1.4)	4.7	(.3)	7.3
						113.5	104.7	144.3	163.2	133.9
					INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**$ 57.0**	$ 38.3	$(30.3)	$(62.7)	$ 19.9

[a] After aggregate provision for closed stores of $13.4 million.

[b] After a gain of $5.4 million from the sale of Long John International Limited.

[c] After provision for disposition of certain operations of $10.4 million.

Consolidated Balance Sheet

ASSETS

	January 31, 1978	January 31, 1977
	(In Thousands)	
Current Assets:		
Cash	$ 57,452	$ 79,070
Temporary investments in U.S. Government securities, at cost which approximates market	19,000	—
Trade receivables, less allowances ($5,421,000 and $5,029,000)	215,821	196,131
Inventories	600,864	606,770
Other receivables, prepaid expenses, etc.	32,187	29,428
Total current assets	925,324	911,399
Investments and Advances:		
Otasco Credit Corporation, at equity	15,156	15,042
Other investments, etc., substantially at equity	10,184	10,459
Total investments and advances	25,340	25,501
Property, Plant and Equipment:		
Land	8,157	8,647
Buildings, store properties and warehouses	95,749	95,406
Furniture, fixtures and leasehold improvements	227,773	241,120
Machinery and equipment	79,169	75,873
Total—at cost	410,848	421,046
Less accumulated depreciation and amortization	220,336	228,132
Property, plant and equipment—net	190,512	192,914
Other Assets:		
Excess of cost of investments over related equities, less accumulated amortization ($19,164,000 and $15,226,000)	250,955	257,064
Franchises, less accumulated amortization ($2,119,000 and $1,720,000)	47,881	48,280
Trademarks and goodwill	3,401	3,472
Deferred charges, mortgages and sundry	41,883	41,841
Total other assets	344,120	350,657
Total	$1,485,296	$1,480,471

See Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	January 31, 1978	January 31, 1977
	(In Thousands)	
Current Liabilities:		
Short-term debt	$ 110,000	$ 114,412
Current maturities of long-term debt	18,586	10,136
Accounts payable	100,098	95,316
Accrued expenses and sundry	135,469	134,126
Accrued Federal and foreign income taxes	39,091	36,123
Total current liabilities	403,244	390,113
Long-Term Debt, Less Current Maturities and Unamortized Discount	731,644	817,371
Other Non-Current Liabilities:		
Deferred Federal and foreign income taxes	39,821	14,675
Other	82,734	73,345
Total other non-current liabilities	122,555	88,020
Minority Interest in Subsidiaries	15,941	19,155
Stockholders' Equity:		
Capital stock:		
Preferred stocks (aggregate liquidation preference, $24,003,000 and $24,014,000)	6,828	6,831
Common stock, $1 par value, authorized 50,000,000 shares, issued (1978) 7,935,816 shares and (1977) 7,935,629 shares, less treasury stock (1978) 81,581 shares and (1977) 82,443 shares	7,854	7,853
Additional paid-in capital	184,135	185,192
Retained earnings (deficit)	13,095	(34,064)
Total stockholders' equity	211,912	165,812
Total	$1,485,296	$1,480,471

See Notes to Financial Statements.

Statement of Consolidated Income

	Year Ended January 31, 1978	1977
	(In Thousands, Except Per Share Amounts)	
Revenues:		
Net sales	$2,372,954	$2,346,125
Other—net	7,121	16,947
	2,380,075	2,363,072
Costs and Expenses:		
Cost of goods sold	1,725,136	1,728,821
Selling, general and administrative expenses	481,711	480,982
Interest and debt expense	95,784	95,805
Depreciation and amortization	19,538	19,349
Provision for disposition of certain operations	900	1,300
Minority interest	—	(1,480)
	2,323,069	2,324,777
Income From Continuing Operations Before Provision for Income Taxes	57,006	38,295
Provision for Income Taxes	31,888	24,355
Income From Continuing Operations Before Extraordinary Credit	**25,118**	**13,940**
Discontinued Operations—Provision for estimated losses on phase-out of S. Klein—net of tax	(7,500)	—
Income Before Extraordinary Credit	17,618	13,940
Extraordinary Credit—Gain on debenture exchange—net of tax	30,075	—
Net Income	47,693	13,940
Consolidated Preferred Dividend Requirements	1,928	2,023
Net Income Applicable to Common Stockholders	$ 45,765	$ 11,917
Income Per Share of Common Stock:		
Primary:		
Continuing operations	**$2.95**	**$1.54**
Discontinued operations	(.95)	—
Extraordinary credit	3.83	—
Net income	$5.83	$1.54
Fully Diluted:		
Continuing operations	**$2.65**	**$1.43**
Discontinued operations	(.82)	—
Extraordinary credit	3.28	—
Net income	$5.11	$1.43

See Notes to Financial Statements.

Statement of Consolidated Stockholders' Equity

	Preferred Stocks	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Securities*
			(In Thousands)		
Balance, February 1, 1976	$6,847	$6,904	$187,761	$ (3,023)	$(51,819)
Net income				13,940	
Cash dividends on preferred stocks			(942)		
Conversion of preferred stocks	(16)	1	15		
Issuance of shares of common stock pursuant to merger of a wholly-owned subsidiary with McCrory		948	5,805		
Cancellation of treasury shares of McCrory at date of merger			(6,212)	(44,991)	51,203
Equity in certain transactions of subsidiaries			(642)		33
Reclassification			(593)	10	583
Balance, January 31, 1977	6,831	7,853	185,192	(34,064)	—
Net income				47,693	
Cash dividends on preferred stocks			(706)	(235)	
Conversion of preferred stocks	(3)		3		
Equity in certain transactions of subsidiaries		1	(354)	(299)	
Balance, January 31, 1978	$6,828	$7,854	$184,135	$ 13,095	

* Consisted of equity in McCrory's cost of its treasury stock and McCrory's carrying value of investment in Rapid's common stock (less par value) and warrants.

See Notes to Financial Statements.

Statement of Changes in Consolidated Financial Position

		Year Ended January 31, 1978	1977
		(In Thousands)	
Funds Provided:			
Operations:			
Income before extraordinary credit		$ 17,618	$ 13,940
Items not currently requiring (providing) funds:			
Depreciation and amortization (including debt discount and intangibles)		31,415	31,473
Deferred income taxes		12,450	13,815
Provision for S. Klein phase-out		14,500	—
Minority interest (after preferred dividends of $849,000)		—	(2,329)
Other—net		8,303	4,576
Funds provided by operations		84,286	61,475
Extraordinary credit—gain on debenture exchange	$30,075		
Deferred income taxes related to extraordinary credit.	16,133		
	46,208		
Decrease in long-term debt—debenture exchange	(46,208)	—	—
Decrease in investment in McCrory Credit Corporation		—	20,300
Disposals of property, plant and equipment		7,090	5,314
Reduction in excess cost related to acquisition of McCrory minority interest		1,758	8,251
Issuance of securities in McCrory merger		—	6,753
Issuance of long-term debt		—	4,102
		93,134	106,195
Funds Applied:			
Reduction in long-term debt		47,528	33,754
Additions to property, plant and equipment		25,032	24,483
Reduction of non-current reserves relating to store closing programs		8,652	11,605
Investment in Otasco Credit Corporation		—	15,000
Acquisition of minority interest in subsidiaries		3,218	12,037
Cash dividends on preferred stocks		941	942
Other—net		6,969	1,978
		92,340	99,799
Increase in Working Capital		$ 794	$ 6,396
Increase (Decrease) in Working Capital Components:			
Cash		$(21,618)	$ (388)
Temporary investments		19,000	—
Trade receivables, less allowances		19,690	45,147
Inventories		(5,906)	(1,604)
Other receivables, prepaid expenses, etc.		2,759	(15,487)
Short-term debt		4,412	(28,589)
Current maturities of long-term debt		(8,450)	13,321
Accounts payable		(4,782)	(9,433)
Accrued expenses and sundry		(1,343)	1,460
Accrued Federal and foreign income taxes		(2,968)	1,969
Increase in Working Capital		$ 794	$ 6,396

See Notes to Financial Statements.

Notes to Financial Statements

1. *Summary of Significant Accounting Policies*

Principles of Consolidation

The consolidated financial statements include (i) Rapid and its divisions, Leeds Travelwear and Rapid Electrotype; (ii) McCrory Corporation and its divisions and subsidiaries, including Lerner Stores Corporation and subsidiaries, Otasco, Inc. (which operated as a division until July 31, 1976) and subsidiary, J. J. Newberry Co. and subsidiaries and all other subsidiaries, exclusive of McCrory Credit Corporation (liquidated on January 31, 1977) and Otasco Credit Corporation (which commenced operations in September 1976) which is carried at equity; (iii) Schenley Industries, Inc. and its subsidiaries; (iv) Anvil Brand, Incorporated and its divisions and subsidiaries; (v) Rapid-American Menswear, Inc. and its divisions; and (vi) certain other subsidiaries whose assets and operations in the aggregate are not significant.

To facilitate comparisons with the current year, certain amounts in the prior year have been reclassified.

Minority interest in consolidated subsidiaries in both years consisted of preferred and preference stocks of subsidiaries not held by Rapid and its subsidiaries.

Inventories

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes of approximately $327,090,000 and $356,192,000, respectively, for the years ended January 31, 1978 and 1977.

Property, Plant and Equipment

Depreciation is provided generally on the straight-line method, at rates based on estimated useful lives.

Excess of Cost of Investments Over Related Equities and Franchises

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to $113,518,000 at January 31, 1978 and $115,689,000 at January 31, 1977, has been recognized as being similar in nature to intangibles which have not declined in value since acquisition. In accordance with Accounting Research Bulletin 43, these excess costs have not been amortized or written down as, in the opinion of management, there has not been any permanent impairment in the value of the related investments (see Notes 2 and 4). Franchises which consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits, have continuing value and accordingly are not being amortized, except for the portion acquired subsequent to October 31, 1970.

Pursuant to certain opinions of the Accounting Principles Board, the excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to $137,437,000 (after accumulated amortization of $19,164,000) at January 31, 1978 and $141,375,000 (after accumulated amortization of $15,226,000) at January 31, 1977, and the portion of franchises, amounting to $13,827,000 (after accumulated amortization of $2,119,000) at January 31, 1978 and $14,226,000 (after accumulated amortization of $1,720,000) at January 31, 1977, acquired from Glen Alden's minority interest subsequent to October 31, 1970 are being amortized on the straight-line method over forty years (see Notes 2 and 4). These excess costs and franchises have not been otherwise written down, as, in the opinion of management, there has not been any permanent impairment in the value of the related investments.

Excess of Net Assets Acquired Over Related Costs

The excess, amounting to $8,918,000 at January 31, 1978 and $11,139,000 at January 31, 1977 (after accumulated amortization and other adjustments of $15,855,000 and $13,634,000, respectively), of the net assets acquired in the acquisition of J. J. Newberry Co. in 1972, over the aggregate cost was attributed to property accounts, is included in accumulated depreciation and amortization, and is being amortized (as a reduction of depreciation) over a ten year period, the estimated useful life of the property. Such amortization amounted to $1,974,000 and $1,995,000, respectively, during the years ended January 31, 1978 and 1977.

2. *Investments*

Consolidated Subsidiaries

McCrory Corporation—At February 1, 1976 Rapid owned 62.5% of the McCrory common stock outstanding. In connection with the merger of a wholly-owned subsidiary of Rapid with and into McCrory on March 12, 1976, which was accounted for as a purchase transaction in which Rapid was the acquiring corporation, (i) 947,743 shares of Rapid common stock were exchanged for all of the outstanding shares of McCrory common stock (other than shares held by Rapid), (ii) all other McCrory securities remained outstanding, with certain McCrory securities becoming convertible or exercisable into Rapid common stock pursuant to the terms of the merger, and (iii) McCrory retired its common stock held in treasury.

Pursuant to cash tender offers and open market purchases, Rapid purchased 14,478 shares of McCrory 4½% Cumulative Preference B Stock and 17,701 shares of McCrory $6 Cumulative Convertible Preference Stock during the period from May 1977 to January 1978. At December 1, 1977, Rapid's percentage of the total voting power of McCrory increased to over 80%, which resulted in McCrory and its domestic subsidiaries being included in Rapid's consolidated Federal income tax return from that date.

From November 1975 through March 1976, Rapid purchased approximately $67,237,000 principal amount of McCrory subordinated debentures (carrying value $48,260,000) at a cost of $35,197,000. During March 1976, in connection with the merger, McCrory issued to Rapid three subordinated promissory notes (the "Notes"), in the aggregate principal amount of $35,197,000, in exchange for the $67,237,000 aggregate principal amount of McCrory's subordinated debentures (the "Debentures"), which Rapid had previously purchased on the open market (see Note 5). The Notes bear interest payable quarterly in an amount equal to the interest which would have been accrued on the Debentures delivered in exchange for the Notes (approximately $5,171,000 per annum, an effective interest rate of 14.7%). In accordance with the provisions of McCrory's Revolving Credit Agreement McCrory applied the Debentures (with the exception of $3,550,000 principal amount of McCrory's 7¾% sinking fund subordinated debentures used in the settlement of a lawsuit) to meet the mandatory sinking fund requirements of the applicable issue of debentures. McCrory recorded an extraordinary

gain of $10,413,000, after income taxes of $2,650,000, on this transaction. The equity in the underlying net assets acquired from McCrory's common stock minority interest exceeded the aggregate cost ($9,000,000) of such investment by $8,300,000, including therein Rapid's equity in the gain on the purchase of McCrory's debentures which has been reflected as a reduction of the cost of the McCrory common stock minority interest acquired.

Schenley Industries, Inc.—Rapid's equity in the income of Schenley was $22,056,000 and $24,731,000, respectively, for the years ended January 31, 1978 and 1977. The net assets of Schenley at such dates were $350,256,000 and $349,200,000, respectively. Rapid carries its investments in subsidiaries, including Schenley, at equity, plus, where applicable, the excess of the aggregate cost over the equity in underlying net assets acquired at dates of acquisition, including the portion allocated to franchises (see Note 4).

S. Klein Department Stores, Inc.—In March 1975 (reflected in the financial statements as of January 31, 1975), management of McCrory decided to phase out completely the operations of S. Klein Department Stores, Inc., a wholly-owned subsidiary of McCrory. While it was not then possible to determine the ultimate loss to be incurred in connection with such phase-out, a provision of $58,300,000 for the estimated losses to be incurred in phasing out the S. Klein operations, less related deferred Federal income tax benefit of $26,800,000, was established during the year ended January 31, 1975, based upon various assumptions which management then believed were realistic. In December 1975 and January 1978, management of McCrory determined that additional provisions of $16,400,000 and $14,500,000, respectively, less related deferred Federal income tax benefits of $7,900,000 and $7,000,000, respectively, were necessary based upon losses incurred and revised estimates of additional future losses to be incurred (including the transactions with Korvettes, Inc. described below). Such estimated losses and charges consist of the following:

	Provisions			As of January 31, 1978	
	Year Ended January 31,				
	1975	1976	1978	Accumulated Charges	Balance
	(In Thousands)				
Write-down of assets to net realizable value	$24,126	$ 1,755	—	$25,881	—
Present value of future lease commitments and real estate taxes, net of estimated recoveries	24,110	6,320	$ 9,936	21,511	$18,855
Estimated losses during phase-out period and other related costs	10,064	8,325	4,564	16,366	6,587
	58,300	16,400	14,500	$63,758	$25,442
Less Federal income tax benefit	26,800	7,900	7,000		
Estimated losses	31,500	8,500	7,500		
Less minority interest	11,818	3,191	—		
Rapid's equity therein	$19,682	$ 5,309	$ 7,500		

The balance at January 31, 1978 consists of $5,318,000 (current) and $20,124,000 (long-term) and at January 31, 1977 consisted of $6,926,000 (current) and $10,527,000 (long-term).

The program of phasing out the S. Klein stores resulted in all nineteen stores being closed by the end of August 1975. Management of McCrory has completed the disposition of ten of the stores, which includes the disposition of five stores to Korvettes, Inc., has sublet parts of three other stores and is attempting to make further dispositions. Additional adjustments may be required based upon the results of efforts to make further dispositions of leased premises. The current present value of remaining future lease commitments and real estate taxes relating to the stores which have not yet been disposed of, assuming no additional recoveries, is approximately $11,000,000 (before giving effect to income taxes) in excess of that which has been provided for (see Note 15). It is the opinion of management of Rapid that the ultimate resolution of the S. Klein phase-out will not have a material effect upon Rapid's consolidated financial position.

As of October 1, 1975, McCrory assigned its rights as tenant under leases for five S. Klein store locations to Korvettes, Inc., a wholly-owned subsidiary of Arlen Realty & Development Corp. As part of the transaction, McCrory sold to Korvettes all of the leasehold improvements and certain trade fixtures located in such stores for $3,916,000 in notes, payable in monthly instalments over 18 years. At January 31, 1978, the notes aggregated $3,400,000 of which $3,164,000 is included in "other assets" in the consolidated balance sheet. Korvettes has assumed McCrory's obligations under such leases. including the obligation to pay substantially all of the rent, real estate taxes and other charges. The aggregate minimum annual rental payments under such leases range from approximately $2,000,000 in the year ended January 31, 1978 to approximately $800,000 in the year ending January 31, 2000, and aggregate approximately $29,000,000 for the period commencing February 1, 1978 and ending upon expiration of the initial terms of such leases. Real estate taxes and other charges payable under such leases aggregated approximately $1,200,000 in the year ended January 31, 1976. Korvettes has the right to renew three of such leases, if its net worth is at least $80,000,000 at the times of renewal; such renewal terms would commence in 1985 and end in 2023, at minimum annual rentals aggregating approximately $26,200,000 over the renewal period. In addition, McCrory had renewed its lease for one S. Klein store location, which was to expire in 1984, for a 25 year term, and had sublet to Korvettes, for a 26 year term commencing in 1983, the main building of such premises. The lease for the entire store location provides for a minimum annual rental of $475,000, plus real estate taxes and other charges which aggregated approximately $375,000 in the year ended January 31, 1976. The agreement to sublease this store to Korvettes was subsequently terminated concurrently with a subleasing of the store to Alexander's, Inc. for a term of 20 years commencing in April 1977 at an annual minimum rental of $663,000 for the first 10 years and $588,000 annually for the balance of the initial term, and a proportionate share of real estate taxes. As consideration for the termination of the sublease with Korvettes, McCrory agreed to pay to Korvettes the sum of $3,500,000 and gave its promissory notes aggregating that amount bearing interest on the unpaid balance at the rate of 10% per annum. On February 1, 1977 McCrory prepaid the notes in full. McCrory recorded a pretax loss of approximately $1,300,000 in the year ended January 31, 1977 relating to such store location. McCrory has not been released by its landlords from any of its obligations under the foregoing leases. McCrory issued non-interest bearing promissory notes to Arlen and Korvettes in the aggregate amount of approximately $5,300,000 for certain expenses, which have been paid. McCrory also has paid certain other expenses relating to the

transaction. As part of the Korvettes transaction, McCrory had subleased, commencing January 1, 1976, two stores (including certain trade fixtures located therein) formerly operated by Arlen or its affiliates. McCrory was liable under these subleases, which were to expire in 1984, for payments of not more than an aggregate of approximately $9,700,000. In July 1977, McCrory terminated its subleases of the Arlen stores for a cash payment to Arlen of $2,417,000. In the nine months ended November 30, 1977 and in the fiscal years ended February 28, 1977 and February 29, 1976, Arlen reported consolidated net losses of $25,263,000, $48,659,000 and $23,805,000, respectively, and at November 30, 1977 Arlen reported a consolidated shareholders' deficit of $1,234,000.

Unconsolidated Subsidiaries and Affiliates

Otasco Credit Corporation and McCrory Credit Corporation—Otasco, Inc. has a financing agreement with Otasco Credit Corporation under which certain customers' accounts receivable created each month are sold in the following month to the credit company. The seller receives 90% of the amount of accounts sold, the remaining 10% representing the sellers' equity therein. The seller repurchases accounts in default, as defined. The 10% equity of Otasco, Inc. in sold accounts receivable is included in trade receivables in the consolidated balance sheet.

The condensed balance sheet of Otasco Credit at January 31, 1978 and 1977 is presented below:

	January 31,	
	1978	1977
	(In Thousands)	
Assets:		
Customers' accounts receivable purchased, net of 10% withheld pending collection ($4,651,000 and $4,135,000)	$41,866	$37,216
Cash	4,651	4,153
Total assets	46,517	41,369
Liabilities:		
Notes payable to banks	31,000	26,000
Accrued interest and sundry	263	288
Due to affiliated companies	98	39
Total liabilities	31,361	26,327
Rapid's carrying value (including $14,000,000 of subordinated notes payable to McCrory and subsidiaries)	$15,156	$15,042

Net income of Otasco Credit for the year ended January 31, 1978 was $114,000 and for the period from September 1976 (date operations commenced) to January 31, 1977 was $42,000 and is included in consolidated net income.

On September 1, 1976, Otasco Credit entered into an agreement with a regional bank group for a revolving credit line in the initial aggregate principal amount of $25,000,000 (increased to $31,000,000 at January 31, 1978), secured by substantially all of Otasco's trade accounts receivable. The agreement expires on June 30, 1979. In connection with the agreement, Otasco purchased the trade accounts receivable previously sold to McCrory Credit by the Otasco Division of McCrory. The agreement provides, among other things, for an interest rate of ¾ of 1% above prime and maintenance of compensating balances equal to 15% of the borrowings. As of January 31, 1978 and 1977 the average interest rates were 8.75% and 7%. The average amount of notes payable to banks outstanding during the year ended January 31, 1978 and for the five months ended January 31, 1977 was $28,600,000 and $25,600,000, respectively, and the weighted average interest rates were approximately 7.7% and 7.3%, respectively.

At January 31, 1976, McCrory Credit entered into an agreement, extending the maturity date of its then outstanding bank loans to January 31, 1977; such loans were prepaid on September 1, 1976 principally with the proceeds from the sale of receivables to Otasco, Inc. McCrory Credit was liquidated into McCrory on January 31, 1977.

ILC Industries, Inc.—At January 31, 1978 and 1977, Rapid owned 555,054 shares (74%) of ILC common stock. The carrying value of Rapid's investment in ILC, including loans and advances, aggregated approximately $5,200,000 at January 31, 1978 and $5,300,000 at January 31, 1977. Under ILC's bank agreement, repayment of advances by Rapid on an open account basis is subordinated to repayment of ILC's bank debt ($475,000 outstanding on December 31, 1977). Rapid has agreed not to dispose of any of its capital stock of ILC without the prior written consent of ILC's bank lenders. During the two years ended December 31, 1977 and 1976 ILC reported net income of approximately $886,000 and $57,000, respectively.

3. *Inventories*

Inventories consisted of the following:

	January 31, 1978	January 31, 1977
	(In Thousands)	
At cost—whiskey, other spirits and wine:		
In bond	$279,118	$273,354
Tax paid	36,629	46,648
At lower of cost or market:		
Retail method—at stores and warehouses	134,987	133,782
Principally first-in, first-out and average cost:		
Merchandise at stores, plants and warehouses	75,038	74,776
Work in process	10,668	10,470
Raw materials and supplies	33,173	36,260
At identified cost—merchandise in transit, at warehouses and restaurants	31,251	31,480
Total	$600,864	$606,770

4. *Intangibles*

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31,	
	1978	1977
	(In Thousands)	
Glen Alden, principally Schenley (Note 2)	$169,514	$169,514
Lerner	65,538	65,538
McCrory (Note 2)	18,379	20,137
Rapid-American Menswear	14,592	14,592
Other	2,096	2,509
Total*	270,119	272,290
Less accumulated amortization	19,164	15,226
Net	$250,955	$257,064

* Includes $156,601,000, at January 31, 1978 and 1977, which is being amortized over forty years (see Note 1).

Franchises which consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits amounted to $47,881,000 at January 31, 1978, after accumulated amortization of $2,119,000 and $48,280,000, at January 31, 1977, after accumulated amortization of $1,720,000.

5. *Indebtedness*

Short-Term

Short-term debt outstanding consisted of notes payable to banks ($110,000,000 at January 31, 1978 and $109,000,000 at January 31, 1977) and other notes payable aggregating $5,412,000 at January 31, 1977. The average interest rates were 8.1% and 6.5% as of January 31, 1978 and 1977, respectively. The maximum amount of short-term bank debt outstanding at any month-end was $256,000,000 and $238,000,000, respectively, during the years ended January 31, 1978 and 1977. The average amount of short-term bank debt outstanding was approximately $198,000,000 and $155,000,000, respectively, during the years ended January 31, 1978 and 1977 (calculated as the average of the month-end borrowings outstanding), and the weighted average interest rates on such debt were approximately 7.5% and 7.6%, respectively (calculated by dividing the interest expense during the period for such borrowings by the average short-term bank borrowings). Unused lines of credit available for short-term bank borrowings aggregated approximately $161,500,000 at January 31, 1978 and $143,000,000 at January 31, 1977. Such lines of credit at January 31, 1978 consisted of (i) McCrory's unused lines ($83,000,000) under a revolving credit agreement which expires June 30, 1979 (see *McCrory Agreement*) and (ii) Schenley's unused lines ($78,500,000) under its revolving credit agreement which expires December 1, 1978 (see *Schenley Agreements*).

Schenley and McCrory, under compensating balance arrangements, are generally expected to maintain cash balances of up to 10% of the lines of credit and of up to 10% of the loans outstanding under these lines. Such requirements were satisfied by maintenance of the required balances.

The average weekly cash book balances with various banks having a credit relationship with Rapid and its consolidated subsidiaries were approximately $58,000,000 and $54,000,000, respectively, during the years ended January 31, 1978 and 1977. The aforementioned balances were subject to withdrawal at any time.

Long-Term

Long-term debt at January 31, 1978 and 1977 was as follows:

	January 31, 1978	January 31, 1977	Interest Rates at January 31, 1978 Stated Percent	Interest Rates at January 31, 1978 Effective Percent
	(In Thousands)			
Rapid (a):				
Notes payable to banks and FDIC	$133,500	$138,500	9.95	9.95
Notes payable to insurance companies and mortgages due to 1996	77,858	79,104	2-10.3	2-10.3
Sinking fund and subordinated debentures, due to 2003 (b)	447,663	498,709	6-10.8	8-13.4
	659,021	716,313		
McCrory:				
Notes payable to banks and FDIC	—	30,000	—	—
Notes and mortgages payable, due to 1998 (c)	5,925	6,627	2-10	2-10
Sinking fund and subordinated debentures, due to 1997	210,288	211,753	5-10.5	5-12.1
	875,234	964,693		
Less:				
Current maturities	(18,586)	(10,136)		
Unamortized discount	(125,004)	(137,186)		
	$731,644	$817,371		

(a) Rapid and consolidated subsidiaries, excluding McCrory and its consolidated subsidiaries.

(b) Pursuant to an exchange offer which expires on April 28, 1978, Rapid is offering to exchange $825 principal amount of a new 12% Sinking Fund Subordinated Debenture due 1999 for each $1,000 principal amount of 7½% Sinking Fund Subordinated Debentures due 1985. At January 31, 1978, there were $66,538,000 principal amount of 7½% debentures outstanding (carrying value $58,097,000). See Note 13 for a description of another debenture exchange offer which was completed during the year ended January 31, 1978.

(c) Excludes $35,197,000 payable to Rapid.

Aggregate long-term debt at January 31, 1978, before deduction of unamortized discount after giving effect to the Rapid and McCrory loan agreements implemented on April 14, 1978 (described below), matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1979	$ 18,586	1983	$219,953
1980	93,474	1988	100,875
1981	29,776	1993	223,053
1982	37,701	1998	231,810
1983	40,416	2003	99,543*
	$219,953		$875,234

* Includes $61,257,000 which matures on December 1, 2003.

Rapid Agreement

During 1977 Rapid reached an agreement in principle (the "Agreement in Principle") with eleven banks and the Federal Deposit Insurance Corporation (the "Banks") to modify its existing indebtedness under a term loan agreement dated as of October 31, 1975 ("Rapid Agreement"). The Agreement in Principle was implemented on April 14, 1978.

The Rapid Agreement provides for a revised payment schedule for the $133,500,000 of outstanding indebtedness at January 31, 1978. On April 14, 1978 the Banks received $35,000,000 from the prepayment by McCrory of the notes due to Rapid (see Note 2). McCrory concurrently borrowed the $35,000,000 from certain of the Banks. This McCrory indebtedness ("McCrory Term Loan Agreement") is guaranteed by Rapid, bears interest at the rate prescribed under the Rapid Agreement and is payable in annual installments commencing December 31, 1982 through December 31, 1984 in the following amounts: $5,000,000, $15,000,000 and $15,000,000, respectively. The balance ($98,500,000) of Rapid's indebtedness to the Banks is payable in annual installments commencing December 31, 1978 through December 31, 1983 in the following amounts: $16,000,000, $14,500,000, $22,000,000, $22,000,000, $17,000,000 and $7,000,000, respectively. With respect to each of the last five installments due December 31, 1979 through December 31, 1983, Rapid will have the option of delivering notes of Schenley (the "Schenley Notes"), which would be accepted by the Banks in substitution for an equal amount of the payment due under each such installment. Each of the Schenley Notes would (i) not exceed $7,000,000 in principal amount, (ii) be guaranteed by Rapid, (iii) bear interest at the rate prescribed under the Rapid Agreement and (iv) be subordinated to Schenley's bank indebtedness. The Schenley Notes issued in 1979 would be payable in 1984, those issued in 1980 and 1981 would be payable in 1985 and those issued in 1982 and 1983 would be payable in 1986.

The Rapid Agreement provides for mandatory prepayments, in certain cases, out of the proceeds from the sale of assets. Interest is payable at the rate of 115% of the prime rate, plus ¾ of 1% per annum. The prime rate was 8% and 6¼% at January 31, 1978 and 1977, respectively. There is no compensating balance requirement. The indebtedness under the Rapid Agreement and Rapid's obligations under the guaranty of the McCrory Term Loan Agreement and the Schenley Notes is secured by the pledge of the shares of capital stock of McCrory, Schenley and Rapid's other operating subsidiaries. The Rapid Agreement also contains various covenants relating to Rapid's financial position, including minimum levels of working capital and net worth on a consolidated basis (excluding McCrory). It also contains various limitations on actions that may be taken, including the incurrence of indebtedness, guarantees, lease commitments, the disposition of property, business combinations, capital expenditures, investments and the payment of dividends. The payment of cash dividends by Rapid on its common stock continues to be subject to a test based on income. Rapid may pay such dividends (not to exceed $3,200,000 in any one year) and may purchase subordinated debentures, exclusive of mandatory sinking fund requirements, in an aggregate amount of up to 50% of the difference between (i) its after-tax earnings (as defined in the Rapid Agreement) through the end of the previous fiscal year less, during the fiscal years commencing February 1. 1978 through February 1, 1983, the amounts of $17,000,000, $37,000,000, $62,000,000, $92,000,000, $127,000,000 and $162,000,000, respectively, and (ii) such cash dividends and purchases theretofore paid or made; provided, that Rapid will have to prepay the installments under the Rapid Agreement (exclusive of the maturities which may be satisfied by the issuance of Schenley Notes) in their inverse order of maturity in an amount equal to any common stock cash dividends paid and subordinated debentures purchased.

On March 29, 1978, the Board of Directors declared a dividend of 20¢ per share on common stock which is payable June 30, 1978 to holders of record on June 15, 1978.

Schenley Agreements

As of December 20, 1977 Schenley entered into a revolving credit agreement ("Schenley Credit Agreement") with 14 banks under which Schenley can presently borrow up to an aggregate of $188,500,000. The Schenley Credit Agreement expires on December 1, 1978. Interest on the borrowings is at ¼% above the prime rate. The Schenley Credit Agreement also provides for a commitment fee of ½ of 1% per annum on the average unused portion of the credit lines. In addition, Schenley is required to maintain balances equal to 10% of the average daily outstanding principal amount of borrowings and 10% of the average daily commitment. If such balances are not maintained, a deficiency fee will be incurred.

The Schenley Credit Agreement contains various covenants relating to Schenley's financial position and various limitations on actions, that may be taken including incurrence of indebtedness, liens, guarantees, lease commitments, sales and lease backs, the disposition of property, mergers and acquisitions, capital expenditures, investments, and the payment of cash dividends.

Schenley has a loan agreement with certain insurance companies, which matures on March 1, 1979, under which it presently is borrowing $71,500,000. Such debt bears interest at the rate of 6½% per annum. The agreement contains certain limitations with respect to additional borrowings and places certain limitations on the payment of cash dividends and the acquisition by Schenley of its capital stock.

McCrory Agreement

At January 31, 1978, the McCrory revolving credit agreement ("Revolving Credit Agreement"), with eight banks and the FDIC provides for an aggregate credit of $83,000,000 which will be reduced to $72,000,000 on February 2, 1979. The interest charge is at the rate of the higher of ¾% above the prime rate or 1¼% above the commercial paper rate (as defined) on an annual basis. The Revolving Credit Agreement also provides for a commitment fee of ½ of 1% per annum on the average unused portion of the committed lines. At January 31, 1978 there were no notes outstanding. McCrory is required to reduce to $20,000,000 its aggregate borrowings under the Revolving Credit Agreement for a 30-day period during the last two months of the year ending January 31, 1979. At January 31, 1977, there were $35,000,000 of notes outstanding and $58,500,000 of unused lines of credit available.

To secure the loans, McCrory granted to the banks and the FDIC security interest in (i) all of the outstanding capital stock of Lerner, (ii) a note of Newberry in the principal amount of $41,500,000 payable to McCrory and (iii) certain accounts receivable of McCrory payable by Newberry. McCrory's obligations under the Revolving Credit Agreement are guaranteed by its subsidiaries, other than Newberry and its subsidiaries and Otasco and its subsidiaries. The Revolving Credit Agreement requires McCrory to maintain compensating balances at each of the banks averaging 10% of the outstanding borrowing and 10% of the total credit line. There are no legal restrictions on the withdrawal of such funds. If compensating balances are not maintained, a deficiency fee will be incurred.

The Revolving Credit Agreement also requires McCrory to maintain minimum levels of (i) consolidated tangible net worth plus subordinated indebtedness, (ii) consolidated net current

assets and (iii) ratios of consolidated current assets to current liabilities (as each term is defined). The Revolving Credit Agreement and other agreements covering certain indebtedness contain certain other material restrictions on McCrory and its subsidiaries, including restrictions on indebtedness, liens, guarantees, lease commitments, capital expenditures, the disposition of property, investments and the right to engage in business combinations. Furthermore, the Revolving Credit Agreement restricts the amount of McCrory's indebtedness to Lerner and the amounts of future dividends (as defined) which may be declared by Lerner. McCrory may pay cash dividends on its common stock out of cash flow (as defined); approximately $20,000,000 at January 31, 1978 is available for dividends. McCrory may pay cash dividends on its preferred and preference stocks in accordance with the stated dividend rates. In the event that the Revolving Credit Agreement is terminated, the covenants contained in the McCrory Term Loan Agreement (see *Rapid Agreement* above) would become effective. Such covenants are similar to those contained in the Revolving Credit Agreement. In addition, under certain circumstances specified in the McCrory Term Loan Agreement, McCrory may have to pledge the outstanding capital stock of Lerner to secure its indebtedness thereunder.

The maximum amounts of notes payable by McCrory to the banks and the FDIC outstanding at any month-end during the years ended January 31, 1978 and 1977 were $93,250,000 and $109,250,000, respectively. The average amount of notes payable to the banks and the FDIC outstanding during the years ended January 31, 1978 and 1977, were approximately $63,500,000 and $81,000,000, respectively. The interest rate applicable to such loans was 7.9% at January 31, 1977 and ranged during the years from 7.0% to 9.0%. The weighted average interest rates on such debt for the years ended January 31, 1978 and 1977 were approximately 8.4% and 8.7%, respectively. The average daily bank balances on deposit with the banks in the Revolving Credit Agreement during the years ended January 31, 1978 and 1977 were approximately $25,000,000 and $14,500,000, respectively.

Accounts Receivable Financing Agreements

Rapid-American Menswear has a financing arrangement with a bank whereby it obtains funds against the sale of accounts receivable, up to a maximum of $12,000,000.

On August 27, 1975, Lerner entered into an agreement with Citicorp Custom Credit, inc. ("Custom"), pursuant to which Custom purchases and services, during a three-year period which commenced in September 1975, substantially all of Lerner's accounts receivable arising from sales to customers by Lerner and its subsidiaries. In connection with this agreement, Lerner repurchased the accounts receivable previously sold to McCrory Credit for approximately $31,800,000. The accounts receivable are currently purchased by Custom without recourse for 92% of their face amount. The agreement imposes restrictions on Lerner holding securities and debt of McCrory and Rapid, the payment of dividends on Lerner's capital stock, and Lerner guaranteeing the obligations of others and entering into certain transactions with McCrory and Rapid. The agreement is subject to two one-year renewal terms at the option of Lerner so long as no material adverse change has occurred in Lerner's business, financial condition or its Charge Plan, Charge Customers or Indebtedness (as each is defined). At the termination of the agreement Lerner is obligated to repurchase all then eligible outstanding accounts receivable at their face amounts. Lerner accounts for the transactions under the agreement as a sale of accounts receivable.

6. *Preferred Stocks*

Cumulative convertible preferred stocks of Rapid are as follows:

	$3 Preferred (a)	$3.15 Preferred (a)	$2.25 Junior Preferred ($2 Par Value)
Number of shares:			
Authorized	2,172,995	1,300,000	397,777
Outstanding:			
January 31, 1978	109,575	5,608	264,534
January 31, 1977	109,585	5,648	264,534
Aggregate par or stated value at January 31, 1978	$5,956,000	$343,000	$529,000
Aggregate liquidation preference at January 31, 1978 (b)	$11,505,000	$594,000	$11,904,000
Liquidation value per share	$105	$106	$45
Conversion rate per share	3.572 for 1	3.877 for 1	3.2 for 1
Shares of common stock reserved for conversion of preferred stock outstanding	391,401	21,742	846,508

(a) Without par value. The conversion rates of the preferred stocks are subject to anti-dilution adjustments under certain circumstances.

(b) The excess ($17,175,000) of aggregate liquidation preference over par or stated value imposes no restriction upon the payment of cash dividends.

During the years ended January 31, 1978 and 1977, conversions of preferred stocks were as follows:

	Year Ended January 31, 1978	Year Ended January 31, 1977
$3 Preferred	10 shs.	64 shs.
$3.15 Preferred	40 shs.	188 shs.
Common Stock Issued	187 shs.	952 shs.

7. *Common Stock, Warrants and Options*

During fiscal 1977 Kenton Corporation ("Kenton") acquired or agreed to acquire approximately 21% of the outstanding shares of Rapid common stock from Meshulam Riklis, Isidore A. Becker and private investors. Certain of Rapid's officers, directors and employees are also officers and directors of Kenton. In excess of 50% of the outstanding shares of Kenton common stock is owned by (i) a trust for the benefit of Mr. Riklis' children and grandchildren, (ii) Mr. Riklis' children and (iii) a director and officer of Rapid and his children. Kenton has stated that its purpose in acquiring such shares of Rapid common stock was to obtain control of the management and business of Rapid.

At January 31, 1978 and 1977, warrants entitling their holders to purchase 3,965,883 shares of Rapid's common stock were outstanding with terms subject to adjustments under certain circumstances and redeemable at $20, expiring May 15, 1994. There were no warrants issued during the years ended January 31, 1978 and 1977. At January 31, 1978 and 1977, McCrory owned 155,368 redeemable warrants (excluded above). McCrory also owned at January 31, 1978 and 1977, 76,806 and 77,668 shares, respectively, of Rapid's common stock, which have been included with treasury stock.

On May 30, 1973, Rapid's stockholders approved a qualified stock option plan which provides for the grant of options to purchase 500,000 shares of common stock at not less than

100% of fair market value on the dates of grant. In June 1974, the only grant to date, options to purchase 221,900 shares of common stock at $14.00 per share were granted. During the two years ended January 31, 1978 and 1977 no options were exercised and options to purchase 9,500 shares and 11,900 shares, respectively, of common stock were cancelled. At January 31, 1977, options to purchase 89,600 shares of common stock were outstanding (67,200 exercisable). At January 31, 1978, options to purchase 80,100 shares of common stock were outstanding and exercisable. Rapid does not intend to grant additional options under the Plan.

On May 30, 1973, Rapid's stockholders approved the grant of two non-qualified stock options for the purchase of an aggregate of 300,000 shares of common stock at a purchase price of $25.00 per share to two officers.

The former Glen Alden 1965 option plan, which was assumed by Rapid upon the effectiveness of the Rapid-Glen Alden Merger in November 1972, authorized the grant of options to purchase common stock and warrants. The 1965 plan expired on June 30, 1974. At February 1, 1976, options to purchase 50,474 shares of common stock and 144,250 redeemable warrants were outstanding and exercisable. During the two years ended January 31, 1978, these options were cancelled.

At January 31, 1978 shares of Rapid common stock were reserved for conversion of McCrory preferred and preference stocks (8,867 shares) and debentures (48,271 shares), and for issuance under stock option plans and upon exercise of McCrory common stock purchase warrants outstanding (314,039 shares), aggregating 371,177 shares.

8. *Reserves for Store Closing Programs*

In February 1976, management of McCrory decided to terminate certain variety store and Britts department store operations in the mid-western region of the United States and, accordingly, as of January 31, 1976, recorded a provision of $13,400,000 (before related Federal income tax benefit of approximately $6,400,000 and minority interest of approximately $2,600,000) principally for the estimated losses to be incurred in connection with the termination of such operations. Such estimated losses and charges consist of the following:

	Provision	As of January 31, 1978	
	Year Ended January 31, 1976	Accumulated Charges	Balance
		(In Thousands)	
Write-down of assets to net realizable value	$ 5,091	$3,266	$1,825
Present value of future lease commitments and real estate taxes, net of estimated recoveries	10,200	2,759	7,441
Other related costs	850	534	316
	16,141	$6,559	$9,582
Less portion charged to excess of net assets acquired over related costs	2,741		
Provision	$13,400		

The balance at January 31, 1978, consists of $546,000 (current) and $9,036,000 (long-term).

9. *Reserve For Disposition of Certain Operations*

In April 1975, management of Rapid decided to dispose of certain of its consumer products operations including Maria Mills, Inc., Friedman Marks, Inc., Almar Manufacturing Corporation and Meadow Sportswear. Accordingly, as of January 31, 1975 a provision of $10,441,000 (before a related deferred income tax benefit of $4,115,000) was established for the estimated losses expected to be incurred upon the disposition of such operations. In the years ended January 31, 1978, 1977 and 1976 additional provisions of $900,000, $1,300,000 and $2,779,000, respectively, were recorded, based upon losses incurred and revised estimates of additional future losses to be incurred. Through January 31, 1978 approximately $13,468,000 of such losses were charged against the established reserve ($15,420,000). The provisions for estimated losses of such companies relate to disposals of part of a line of business (not a discontinued operation) and accordingly, they are included in continuing operations.

10. *Reserve For Loss on Lease*

In the year ended January 31, 1976, management of Rapid decided to consolidate its executive offices at premises currently under lease and occupied by certain subsidiaries. Accordingly, it determined not to move its executive offices to other premises, leased for 25 years at an annual rental of approximately $1,500,000. In October 1975, Rapid recorded a provision of $3,500,000 for the estimated loss on such lease. Through January 31, 1978 approximately $1,100,000 of such losses were charged against the established reserve.

11. *Income Taxes*

The examinations by the Internal Revenue Service of the Federal income tax returns of Rapid, Glen Alden and McCrory have been substantially completed for the periods ended January 31, 1970, December 31, 1969 and January 31, 1970, respectively. While the liabilities for the above-mentioned periods and open years are subject to final determination, the amount accrued in the consolidated balance sheet, in the opinion of management, is adequate to cover amounts which may ultimately be payable.

On December 1, 1977, Rapid acquired additional shares of McCrory preference stocks (see Note 2) which resulted in McCrory and its domestic subsidiaries being included in Rapid's consolidated Federal income tax return from December 1, 1977. The operating losses of Rapid (exclusive of McCrory) were offset by McCrory's earnings, thereby providing Rapid with a lower effective Federal income tax rate.

At January 31, 1976, McCrory had an estimated net operating loss carryforward on a financial statement basis of approximately $10,000,000 whereas on a tax return basis it had a net operating loss carryover of approximately $38,000,000. The tax benefit of the financial statement net operating loss carryover was recognized in a prior period. Through December 1, 1977, it is estimated that McCrory utilized its net operating loss carryover on a tax return basis.

For the year ended January 31, 1977, Rapid incurred a net operating loss on a tax return basis of approximately $17,000,000 which Rapid elected to carryforward and which will expire in the year ending January 31, 1984. The tax benefit of this loss will be recognized when realized.

The provision (benefit) for income taxes included in the statement of consolidated income consisted of the following:

	Year Ended January 31,	
	1978	1977
	(In Thousands)	
Continuing operations:		
Federal:		
Currently payable	$ 3,296	$ 4,003
Deferred	16,642	10,593
Foreign:		
Currently payable	1,958	1,973
Deferred	(423)	184
State	10,415	7,602
	31,888	24,355
Discontinued operations—Federal:		
Currently payable	(3,231)	(3,038)
Deferred	(3,769)	3,038
	(7,000)	—
Total	$24,888	$24,355
Applicable to:		
Rapid and subsidiaries	$(2,756)	$ 5,917
McCrory and subsidiaries	27,644	18,438
Total	$24,888	$24,355

Available investment tax credits of approximately $2,100,000 and $780,000, respectively, for the years ended January 31, 1978 and 1977 were applied as reductions of Federal income tax provisions.

Deferred income taxes (benefit) relating to continuing operations result from the tax effects of items reported in different periods for tax and financial reporting purposes and the effects of net operating loss, investment credits, and contribution carryovers on a tax return basis. The sources of these differences attributable to continuing operations and the tax effect of each were as follows:

	Year Ended January 31, 1978	Year Ended January 31, 1977
	(In Thousands)	
Application of tax return carryovers	$13,007	$ 7,965
Reduction in reserve for store closing programs	1,387	3,015
Installment sales	1,053	576
Excess of book over tax depreciation	(259)	(305)
Deferred systems development costs	(211)	(212)
Other	1,242	(262)
Total	$16,219	$10,777

Deferred income taxes (benefit) relating to discontinued operations result from additions and charges to the reserve for phasing out the S. Klein operations.

The total income tax provision relating to continuing operations for the years ended January 31, 1978 and 1977 amounted to $31,888,000 and $24,355,000, respectively, representing effective income tax rates of 55.9% and 66.2%, respectively. These amounts are different than the amounts of $27,363,000 and $17,671,000, respectively, computed by applying the statutory Federal income tax rate of 48% to income attributable to continuing operations before provision for income taxes and minority interest. The reasons for the variances from the statutory rate are as follows:

	Year Ended January 31, 1978	Year Ended January 31, 1977
	(Percent of Pre-tax Income)	
Statutory rate	48.0%	48.0%
Increase (decrease) in income tax rate resulting from:		
State tax provision (net of Federal income tax effect)	9.5	10.8
Amortization of excess of cost of investments over related equities and other intangibles	3.8	5.9
Amortization of excess of equity over cost of investment	(1.7)	(2.6)
Foreign income	(.2)	(.1)
Investment tax credit	(3.7)	(2.1)
Operating losses not tax effected	—	6.3
Other	.2	—
Actual income tax rate	55.9%	66.2%

The cumulative amount of undistributed earnings of subsidiaries on which Rapid or its subsidiaries may be required to recognize income taxes upon distribution amounted to approximately $58,200,000 at January 31, 1978. No provision has been made for taxes that would be payable upon distribution, since such earnings have been indefinitely reinvested.

12. *Pension Plans*

Rapid and its subsidiaries have various contributory and non-contributory pension plans covering eligible employees. The provision for pension costs relating to continuing operations under the plans was $10,726,000 and $9,020,000 for the years ended January 31, 1978 and 1977, respectively. It is the general policy to fund pension cost accrued as required. As of January 31, 1978, the actuarially computed value of vested benefits under certain of the plans exceeded the total of the related pension funds and balance sheet accruals by approximately $27,000,000. Unfunded prior service cost amounted to approximately $38,000,000 at January 31, 1978, substantially all of which is being funded over various periods not exceeding thirty years.

Employment agreements with certain officers and employees of Rapid and its subsidiaries provide, among other things, for retirement and/or deferred compensation allowances payable over a period of years after employment ceases, contingent upon certain conditions set forth in the agreements. During the years ended January 31, 1978 and 1977, $715,000 and $1,131,000, respectively. were provided for such allowances.

13. *Extraordinary Credit*

During 1977 Rapid issued approximately $153,000,000 principal amount of new 10¾% Sinking Fund Subordinated Debentures due 2003 in exchange for approximately $204,000,000 principal amount of its 6% Sinking Fund Subordinated Debentures due 1988. Rapid recorded an extraordinary gain of $30,075,000 on the exchange representing the difference between the carrying value of the debentures exchanged (the principal amount tendered reduced by applicable unamortized debt discount) and the present value of the new debentures issued, reduced by applicable deferred income taxes of $16,133,000.

The provision for income taxes relating to the extraordinary item in the year ended January 31, 1978 is less than the statutory tax rate as a result of the non-taxability of the portion of the gain which will be allocated to Rapid's basis of its investment in Schenley as allowed under provisions of the Internal Revenue Code.

14. *Income Per Share of Common Stock*

Primary income per share for the years ended January 31, 1978 and 1977 are after deducting preferred dividend requirements including Rapid's equity in preferred dividend requirements of its consolidated subsidiaries ($987,000 and $1,081,000 for the years ended January 31, 1978 and 1977, respectively) and are based upon the weighted average number of common shares outstanding during each year. No common stock equivalents are included in the computations because the assumed exercise of stock options and warrants would be anti-dilutive.

Fully diluted income per share amounts for the years ended January 31, 1978 and 1977 are based on the weighted average number of common shares outstanding increased by the number of common shares which would be issued assuming all dilutive convertible securities had been converted into common stock with appropriate adjustments having been made for related dividends and interest expense. Stock options and warrants were not included since their assumed exercise and utilization of (i) a portion of the proceeds to acquire 20% of the outstanding shares of common stock and (ii) the balance of the proceeds to reduce outstanding debt (resulting in assumed interest savings and income tax provisions and benefits) would be anti-dilutive.

Earnings per share presented for the quarter ended January 31, 1978 (see Note 16) assumes the exercise of stock options and warrants since the result for that quarter was dilutive. Accordingly, the total of the quarterly per share amounts do not agree to the full year totals.

15. *Lease Commitments*

Rapid and certain of its subsidiaries operate principally in leased premises. The basic terms of the initial leases generally range from 10 to 40 years and usually provide for one or more three to five-year renewal options, plus in many instances, the payment of additional rentals based upon percentages of sales, real estate taxes, insurance and maintenance costs.

Leased property under capital leases (as defined by Statement of Financial Accounting Standards No. 13) entered into after January 1, 1977 consisted of store properties and warehouses of $653,000, less accumulated amortization of $16,000, and equipment of $1,839,000 less accumulated amortization of $325,000 at January 31, 1978. Amortization of leased property under capital leases is included in depreciation expense.

If the provisions of Statement of Financial Accounting Standards No. 13 were retroactively applied to capital leases entered into prior to January 1, 1977, it is estimated that the following additional amounts would have been included in the balance sheet as of January 31, 1978 and 1977:

	January 31,	
	1978	1977
	(In Millions)	
Property and equipment	$212.6	$213.2
Less—accumulated depreciation and amortization	136.4	129.7
Total	$ 76.2	$ 83.5
Current maturities of long-term obligations	$ 9.4	$ 9.8
Long-term obligations	102.4	110.7
Total	$111.8	$120.5

In addition, if such property were amortized on a straight-line basis over the lease periods, it is estimated that net income for the years ended January 31, 1978 and 1977 would have been increased by $682,000 and $350,000, respectively.

Total rental expense relating to all non-capitalized leases of continuing operations is as follows:

	Year Ended January 31, 1978	Year Ended January 31, 1977
	(In Millions)	
Minimum rentals	$70.6	$70.6
Contingent rentals and expenses	21.2	20.0
Less—sublease rentals	(7.2)	(7.3)
	$84.6	$83.3

The minimum rental commitments on leases of continuing operations in effect at January 31, 1978 are as follows:

Years Ending January 31,	Capital Leases: Entered into before January 1, 1977	Capital Leases: Entered into after January 1, 1977	Operating Leases
	(In Millions)		
1979	$ 17.6	$ .7	$ 47.0
1980	17.2	.7	44.0
1981	15.2	.5	40.9
1982	13.9	.3	38.4
1983	12.9	.2	36.0
Thereafter	113.0	1.2	278.9
Total minimum payments required*	189.8	3.6	$ 485.2
Less:			
Amount representing estimated executory costs included in minimum lease payments	(8.0)	(.1)	
Amount representing interest	(70.0)	(1.3)	
Present value of net minimum lease payments	111.8	2.2	
Less current portion	(9.4)	(.5)	
Long-term obligation	$102.4	$ 1.7	

* Minimum payments have not been reduced by minimum sublease rentals of $3,892,000 under capital leases and $44,002,000 under operating leases due in the future under noncancellable subleases.

The minimum rental and real estate tax commitments of S. Klein, net of noncancellable subleases, and excluding the leases assigned to Korvettes (see Note 2) are as follows:

Years Ending January 31,	(In Millions)
1979	$ 4.1
1980	3.9
1981	3.9
1982	3.9
1983	3.9
1984-1988	18.0
1989-1993	13.4
1994-1998	5.8
Thereafter	9.9
	66.8
Less—amount representing interest	37.4
Present value of commitments	$29.4

16. *Interim Financial Information (Unaudited)*

	Quarter Ended			
January 31, 1978	April 30,	July 31,	October 31,	January 31,
	(In Millions, Except Per Share Amounts)			
Net sales	$523.4	$535.1	$603.1	$711.3
Income (loss) from continuing operations before income taxes	3.0	(3.7)	14.5	43.2
Income (loss) from continuing operations	(.7)	(7.6)	4.5	28.9**
Income (loss) before extraordinary credit	(.7)	(7.6)	4.5	21.4
Net income (loss)	(.7)	(7.6)	4.5	51.5
Per share of common stock (Note 14):				
Income (loss) from continuing operations before extraordinary credit:				
Primary	(.16)	(1.03)	.52	3.41
Fully diluted	*	*	.47	2.58
January 31, 1977				
Net sales	$518.7	$532.1	$597.5	$697.8
Income (loss) before income taxes (benefits) and minority interest	(1.7)	(6.6)	13.5	31.6
Net income (loss)	(2.6)	(6.2)	7.8	14.9
Net income (loss) per share of common stock:				
Primary	(.42)	(.88)	.94	1.81
Fully diluted	*	*	.83	1.45

* Anti-dilutive.

** See Note 11 for an explanation of the lower effective Federal income tax rate.

17. *Segment Information*

Net sales and operating data of Rapid's industry segments for the years ended January 31, 1978 and 1977 are presented in the Operations Review on page 17. Additional information concerning industry segments follows:

	At January 31, 1978		Year Ended January 31, 1978	
	Identifiable Assets	Leased Property Under Capital Leases (Note 15)	Capital Expenditures	Depreciation and Amortization
	(In Millions)			
Retail Merchandising				
Lerner Stores	$ 202.7	$20.9	$ 7.1	$ 4.5
McCrory Stores	171.7	32.4	5.4	6.4
OTASCO Automotive and Home Accessories Stores	84.5	5.5	3.3	1.6
Britts Department Stores and other	23.0	10.6	.8	.3
Alcoholic Beverages				
Schenley	805.4	2.1	5.7	3.7
Industrial Group				
Menswear	61.7	.2	.5	.5
Ladies' Apparel, Neckwear and Luggage	18.7	—	.3	.4
Knitwear	16.8	4.2	.3	.6
Investment in Unconsolidated Subsidiaries	25.3	—	—	—
Corporate Assets	75.5	.3	1.6	1.5
Total	$1,485.3	$76.2	$25.0	$19.5

Net sales of foreign operations (principally in Canada), export sales, government sales and sales to any individual customer each represented less than 10% of consolidated net sales. Assets of foreign operations represent less than 10% of consolidated assets.

18. *Litigation, Commitments and Contingencies*

Rapid and certain of its subsidiaries are defendants in various actions in which plaintiffs allege violations of securities laws, anti-trust laws, or corporation laws. Substantial damages or significant declaratory or injunctive relief are requested in these actions. In addition, actions are pending and there are asserted and unasserted claims against Rapid and certain of its subsidiaries by landlords, vendors, customers and others in which substantial damages are and may be requested. While Rapid and its subsidiaries intend to defend vigorously such actions and claims, it is not possible to predict with certainty the ultimate outcome of such actions and claims or whether any of them will result in any significant liability to Rapid on a consolidated basis.

Rapid was guarantor as of January 31, 1978 as follows: (a) $1,100,000 of mortgage notes previously held by Rapid or subsidiaries but sold to non-affiliates; (b) $40,700,000 of leases supporting industrial revenue bonds, $1,000,000 of other loans and approximately $32,300,000

of lease payments, all of which are obligations of former subsidiaries, as to which the purchasers of such subsidiaries have agreed to indemnify Rapid against any loss under the guarantees; and (c) other obligations of approximately $12,600,000 the majority of which are lease payments of subsidiaries.

19. *Other Revenues—Net*

Other revenues—net consisted of the following:

	Year Ended Janaury 31,	
	1978	1977
	(In Thousands)	
Interest income	$5,078	$ 4,304
Income (loss) of unconsolidated subsidiaries:		
Otasco Credit	231	81
McCrory Credit	—	459
Other	(488)	(629)
Gain on sale of trademarks	—	4,089
Gain on cash purchases of subordinated debentures for sinking funds	189	2,624
Sundry—net	2,111	6,019
Total	$7,121	$16,947

20. *Interest and Debt Expense*

Interest and debt expense consisted of the following:

	Year Ended January 31,	
	1978	1977
	(In Thousands)	
Interest on bonds, mortgages and similar debt	$54,061	$54,018
Interest on notes payable to banks	27,340	27,979
Amortization of debt discount and expense	7,720	7,820
Interest on accounts receivable sold to Otasco Credit and McCrory Credit (1977)	3,529	3,629
Other, principally imputed interest	3,134	2,359
Total	$95,784	$95,805

21. *Replacement Cost Information (Unaudited)*

The impact of inflation in recent years has resulted in replacement costs of inventories and productive capacity that are greater than the historical costs of such assets. Rapid and its subsidiaries generally have been able to recover the higher costs of goods sold caused by inflation through increases in selling prices.

The annual report on Form 10-K (a copy of which is available upon request) contains specific information with respect to the estimated replacement cost of inventories and productive capacity and the approximate effect which replacement cost would have had on the computation of costs of goods sold and depreciation expense for the years ended January 31, 1978 and 1977.

HASKINS & SELLS

INTERNATIONALLY
DELOITTE, HASKINS & SELLS

TWO BROADWAY
NEW YORK, NEW YORK 10004

AUDITORS' OPINION

The Board of Directors and Stockholders
of Rapid-American Corporation:

We have examined the consolidated balance sheets of Rapid-American Corporation and subsidiaries as of January 31, 1978 and 1977 and the related statements of consolidated income, consolidated stockholders' equity and changes in consolidated financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries whose contribution to consolidated revenues was approximately 27% and 25%, respectively, for the years ended January 31, 1978 and 1977. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon such reports of the other auditors.

As discussed in Note 18, substantial damages are being sought against Rapid-American Corporation and certain of its subsidiaries in various actions and claims. It is not possible to predict the ultimate outcome of such actions and claims.

In our opinion, subject to adjustments, if any, which may result from the ultimate outcome of the actions and claims referred to in the preceding paragraph and based upon our examinations and the reports of other auditors, the accompanying consolidated financial statements present fairly the financial position of Rapid-American Corporation and subsidiaries at January 31, 1978 and 1977 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

March 28, 1978
(April 14, 1978 as to Note 5)

Five Year Summary of Consolidated Operations

	1977	1976	1975	1974	1973
	(In Millions, Except Per Share Amounts)				
Revenues	***$2,380.0***	$2,363.1	$2,296.2	$2,269.1	$2,244.8
Cost of goods sold	***1,725.1***	1,728.8	1,680.1	1,678.3	1,633.0
Selling, general and administrative expenses	***481.7***	481.0	482.4	477.4	457.1
Interest and debt expense	***95.8***	95.8	119.2	143.4	105.3
Depreciation and amortization	***19.5***	19.4	20.0	20.6	19.5
Provision for disposition of certain operations	***.9***	1.3	2.8	10.4	—
Provision for store closing programs	—	—	13.4	—	—
Provision for loss on lease	—	—	3.5	—	—
Minority interest	—	(1.5)	5.1	1.7	10.0
	2,323.0	2,324.8	2,326.5	2,331.8	2,224.9
Income (loss) from continuing operations before provision (benefit) for income taxes	***57.0***	38.3	(30.3)	(62.7)	19.9
Provision (benefit) for income taxes	***31.9***	24.4	(6.6)	5.2	13.3
Income (Loss) From Continuing Operations	***25.1***	**13.9**	**(23.7)**	**(67.9)**	**6.6**
Operations discontinued or sold:					
Provision for estimated losses on phase-out of S. Klein and in 1973 write-off of excess cost	***(7.5)***	—	(5.3)	(19.7)	(7.4)
Income from operations (Playtex and S. Klein)	—	—	19.6	18.0	30.3
	(7.5)	—	14.3	(1.7)	22.9
Income (loss) before extraordinary credits	***17.6***	13.9	(9.4)	(69.6)	29.5
Extraordinary credits	***30.1***	—	14.7	—	—
Net income (loss)	***47.7***	13.9	5.3	(69.6)	29.5
Consolidated preferred dividend requirements	***1.9***	2.0	1.7	1.7	2.0
Net income (loss) applicable to common stockholders	***$ 45.8***	$ 11.9	$ 3.6	$ (71.3)	$ 27.5
Income (loss) per share of common stock:					
Primary:					
Continuing Operations	***$ 2.95***	**$ 1.54**	**$ (3.68)**	**$ (10.25)**	**$ .55**
Operations discontinued or sold	***(.95)***	—	2.07	(.25)	2.59
Extraordinary credits	***3.83***	—	2.14	—	—
Net income (loss)	***$ 5.83***	$ 1.54	$ .53	$ (10.50)	$ 3.14
Fully diluted:					
Continuing Operations	***$ 2.65***	**$ 1.43**	*	*	**$ .53**
Operations discontinued or sold	***(.82)***	—	*	*	2.11
Extraordinary credits	***3.23***	—	*	—	—
Net income (loss)	***$ 5.11***	$ 1.43	*	*	$ 2.64

* Anti-dilutive.

Management's Discussion and Analysis of the Summary of Consolidated Operations

The contribution of each major business segment to net sales and operating profit (loss) from continuing operations is presented in the Operations Review on page 17.

The improvement in income from continuing operations in fiscal 1977 is attributable primarily to (i) improvement in the results of the retail merchandising group and the industrial group and (ii) a lower effective Federal income tax rate resulting from the inclusion, effective December 1, 1977, of McCrory and all of its domestic subsidiaries in Rapid's consolidated Federal income tax return.

The improvement in income from continuing operations in fiscal 1976 resulted primarily from (i) decreased interest expense, due principally to lower borrowing levels and interest rates; (ii) improved operating performance by Rapid's industrial group; (iii) improved results of McCrory Stores (after including the 1975 provision for store closings); and (iv) gains on the sale of trademarks ($4,000,000) and repurchases of sinking fund debentures.

Rapid's results of consolidated operations were materially affected (i) in fiscal 1975 and 1974 by provisions for estimated losses related to McCrory's decision to phase out the operations of S. Klein and provisions for the disposition by Rapid of certain industrial group operations; (ii) in fiscal 1975 by McCrory's provision for store closing programs, Rapid's provision for loss on a lease and an extraordinary credit arising from utilization of net operating loss and foreign tax credit carry-forwards; (iii) in fiscal 1973 by McCrory's write-off of excess of cost of investment over related equity attributable to S. Klein; and (iv) in fiscal 1974 and 1973 by S. Klein's operating losses (included in results of operations discontinued or sold).

PRICE RANGE OF STOCK AND DIVIDEND DATA

	Fiscal Quarter	1977 High	1977 Low	1976 High	1976 Low
Common	1st	7⅝	6⅛	8⅜	6
	2nd	8⅞	6	6⅝	5
	3rd	7½	5⅜	5⅝	3
	4th	6⅝	5½	7	3⅜
$3 Preferred	1st	33½	30⅛	30¾	25¼
	2nd	38	30⅛	30	26½
	3rd	34	30⅜	28	24¾
	4th	31½	28¼	31¼	24½
$2 25 Preferred	1st	26¼	23½	26	21½
	2nd	30½	25	23	20¾
	3rd	28¼	25	22¾	18½
	4th	24½	22	25	19

During 1977 and 1976 quarterly dividends of 75¢, 56¼¢ and 78¾¢ per share, respectively, were paid on the $3 preferred stock, $2.25 preferred stock and the $3.15 preferred stock.

There are outstanding 5,608 shares of $3.15 preferred stock, which are infrequently traded and not listed on any stock exchange.

Product names printed in *Italics* indicate trademarks or trade names

ANNUAL REPORT ON FORM 10-K

The Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available to stockholders without charge upon written request to: Secretary, Rapid-American Corporation, 888 Seventh Avenue, New York, N.Y. 10019.

LISTED SECURITIES (Symbol: RPD)

Security	Transfer Agent or Trustee	Stock Exchange Listings	Outstanding January 31, 1978
Common Stock	Chemical Bank New York, N. Y.	New York Cincinnati Pacific	7,854,235 shs.*
Redeemable Warrants, expiring 1994	Chemical Bank New York, N. Y.	American Pacific	3,965,883 wts.*
Class B Senior Cumulative Convertible ($3) Preferred Stock	Marine Midland Bank New York, N. Y.	New York	109,575 shs.
$2.25 Cumulative Convertible Junior Preferred Stock	Chemical Bank New York, N. Y.	New York	264,534 shs.
7½% Sinking Fund Subordinated Debentures, due 1985	Bradford Trust Company New York, N. Y	New York	$ 66,538,000*
6% Sinking Fund Subordinated Debentures, due 1988	Marine Midland Bank New York, N Y.	New York	$109,941,000*
7% Subordinated Debentures, due 1994 (1969 & 1972 issues)	Bank Leumi Trust Company of New York New York, N. Y.	New York	$118,043,000
10¾% Sinking Fund Subordinated Debentures, due 2003	Bank Leumi Trust Company of New York New York, N. Y.	New York	$153,141,000

* Excludes amounts held by Rapid-American and its subsidiaries

RAPID-AMERICAN CORPORATION

EXECUTIVE OFFICES, 888 Seventh Avenue, New York, N.Y. 10019